United States Court of Appeals

for the Second Circuit

APPELLANT'S APPENDIX

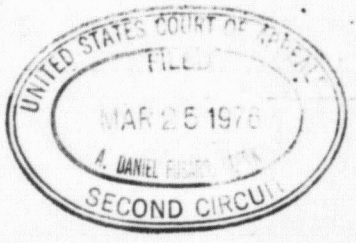
76-3017
76-7131

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

XEROX CORPORATION,	:	Docket No.
Defendant-Appellant,	:	Appeal from an Order of the United States
-against-	:	District Court for the District of Connecticut
SCM CORPORATION,	:	entered February 4, 1976, and reaffirmed after re-
Plaintiff-Appellee.	:	argument on March 9, 1976

XEROX CORPORATION,	:	
Petitioner,	:	Docket No.
-against-	:	Petition for Writ of Mandamus Pursuant to
HON. JON O. NEWMAN, Judge of the United States District Court for the District of Connecticut, and SCM CORPORATION,	:	28 U.S.C. § 1651 and Fed.R.App.P. 21
Respondents.	:	



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UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

XEROX CORPORATION, Defendant-Appellant, - against - SCM CORPORATION, Plaintiff-Appellee.	:	Docket No. Appeal from an Order of the United States District Court for the District of Connecticut entered February 4, 1976, and reaffirmed after re-argument on March 9, 1976
XEROX CORPORATION, , Petitioner, - against - HON. JON O. NEWMAN, Judge of the United States District Court for the District of Connecticut, and SCM CORPORATION, Respondents.	:	Docket No. Petition for Writ of Mandamus Pursuant to 28 U.S.C. § 1651 and Fed.R.App.P. 21

APPENDIX TO XEROX' BRIEF
ON APPEAL AND PETITION FOR
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FILED
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UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

SCM CORPORATION :

V. : CIVIL NO. 15,807

XEROX CORPORATION :

PRE-TRIAL RULING NO. 17

Plaintiff SCM has moved pursuant to Rule 37, Fed. R. Civ. P., for an order compelling responses to numerous interrogatories, deposition questions, and document requests; defendant Xerox claims the attorney-client privilege. The assertion of privilege arises in several different contexts.

Xerox-Rank Organisation Negotiations

The first context concerns negotiations between Xerox and its joint venturer, The Rank Organisation [Rank], in 1968-69. SCM seeks to require Xerox personnel to disclose what they discussed during those negotiations. At that time Xerox and Rank each had a 50% interest in the joint venture, and were negotiating Xerox's acquisition of voting and managerial control. The parties appear to assume that the substance of the statements by Xerox personnel were sufficiently related to the obtaining of legal advice to be protected by the attorney-client privilege. The issue is whether the privilege was lost because of the discussions held with Rank personnel in which that information was revealed. This requires consideration of whether Rank and Xerox had

sufficiently common interests in the subject of the otherwise privileged information to warrant maintaining the privilege, or whether the disclosure to Rank defeated the requirement of confidentiality.

It is apparent from the affidavit of C. Peter McColough, then Chief Executive Officer and President of Xerox, that the statements claimed to be privileged consist of antitrust analysis by Xerox's attorneys. The key question becomes how Rank was interested in those considerations.[1/] Xerox has not established that the discussions with Rank revolved around the possibility of shared exposure to antitrust liability. Instead, it appears that Rank was only indirectly concerned with Xerox's antitrust posture in that Xerox was a joint venturer. As McColough testified, the meetings and statements discussed "legal considerations affecting Xerox as they related or as they might relate to the matters being negotiated." McColough Deposition, Tr. 2251-52 (May 1, 1975). Rank's interest in the negotiations does not appear to be that of a potential co-defendant in a possible antitrust action. Rather, it was negotiating the price for relinquishing voting and managerial control in Rank-Xerox to its formerly equal partner. On that issue the parties were not commonly interested, but adverse, negotiating at arm's length a business transaction between themselves.

The differing business interests of Xerox and Rank are apparent from the course of the 1968-69 negotiations. The communications in question took place during protracted

negotiations between joint venturers, but were not directed at advancing the joint interest vis-a-vis the rest of the world. Instead the parties were negotiating a business proposition between themselves. That the overall profitability of the joint enterprise was a general consideration in which both parties' interests converged does not lessen the significance of their divergent interests. Their interests regarding antitrust considerations were not sufficiently common to justify extending the protection of the attorney-client privilege to their discussions. McColough is, therefore, instructed to answer the four questions asked of him and now in dispute. McColough Deposition, Tr. 2240, 2252-54 (May 1, 1975).

The cases relied upon by Xerox are distinguishable. In Continental Oil Co. v. United States, 330 F.2d 347 (9th Cir. 1964), the exchange of information about grant jury questioning occurred among potential co-defendants. In Hunydee v. United States, 355 F.2d 183 (9th Cir. 1965), the pre-indictment conference was held to apprise each defendant of the other's situation and intended plea. The court treated the exchange as intended to facilitate representation in the coming proceedings and apparently considered the matters of common interest to predominate over the adversity between the interests of the parties. The impending indictment of both parties as participants in the same illegal transaction presented a situation that justified applying the privilege to conversations with their attorneys at a conference between

them, as if they were co-defendants. The interests of Xerox and Rank do not approach that level of common defense.

In Stanley Works v. Haeger Potteries, Inc., 51 F.R.D. 551 (N.D. Ill. 1964), and Burlington Industries v. Exxon Corp., 65 F.R.D. 26 (D. Md. 1974), courts considered the parties' interests in joint licensing programs sufficiently in common to justify protecting communications between the interested parties in preparation for trials in which their common business interests were involved.

Each of the protected communications in cases cited by Xerox was an instance in which the parties were involved in or anticipating litigation. The privilege need not be limited to legal consultations between corporations in litigation situations, however. Corporations should be encouraged to seek legal advice in planning their affairs to avoid litigation as well as in pursuing it. The timing and setting of the communications are important indicators of the measure of common interest; the shared interest necessary to justify extending the privilege to encompass inter-corporate communications appears most clearly in cases of co-defendants and impending litigations but is not necessarily limited to those situations.[2/]

Xerox-Battelle Antitrust Discussions

Xerox asserted the attorney-client privilege when Sol M. Linowitz, former Xerox counsel and former member of its Board of Directors, was asked about a discussion he had with Battelle executives on the subject of antitrust. Xerox and

Battelle may be considered to have shared sufficiently common interests in the exploitation of certain xerography patents so that the attorney-client privilege would appropriately apply and protect their joint discussions on topics of common interest. Cf. In re Yarn Processing Patent Litigation, 177 U.S.P.Q. 514 (S.D. Fla. 1973); Burlington Industries v. Exxon Corp., supra; Stanley Works v. Haeger Potteries, Inc., supra. But their individual postures relevant to the antitrust discussions in point are undefined. In order for the Court to make an informed determination, Linowitz is directed to submit to the Court for its in camera inspection his affidavit setting forth his best recollection of conversations he had with John Gray and John Crout, Battelle executives, in which antitrust matters were discussed during the period prior to the 1956 Xerox-Battelle agreement. See Linowitz Deposition, Tr. 421 (Oct. 10, 1975). This recounting of what each man said should assist the Court in determining whether the interests of their respective companies were sufficiently in common with regard to the particular issues discussed to justify application of the privilege.

The deposition question asked of Linowitz on July 2, 1974, at page 193 concerning the Rochester meeting should be answered. The discussion between Joseph Wilson and Linowitz of Xerox and Crout of Battelle recounted discussions that had taken place before the first Xerox-Battelle agreement. There has been no showing of common interest, or of legal consultation at that discussion. While the question was not renewed

in all its parts at the time of the deposition, SCM has pressed it on this motion. Since the claim of privilege is denied, the question should be answered. Linowitz Deposition, Tr. 193 (July 2, 1974).

The Patent Committee

A related area of dispute is the applicability of the privilege to the committee of Xerox and Battelle representatives that considered the xerography patent structure. While all work of the committee is not necessarily privileged, the requisite common interest to satisfy the confidentiality aspect of the privilege appears to have been present on the subject of the development of xerographic technology and related patent rights. Chester Carlson, Battelle, and Xerox shared a business interest in the successful exploitation of certain patents. Whether the legal advice was focused on pending litigation or on developing a patent program that would afford maximum protection, the privilege should not be denied when the common interest is clear. Cf. 8 Wigmore § 2294 (McNaughton rev. 1961). In this setting of joint analysis and cooperative study, the three parties' common interests in patent protection predominated. Cf. In re Yarn Processing Patent Litigation, supra; Burlington Industries v. Exxon Corp., supra; Stanley Works v. Haeger Potteries, Inc., supra. The Court has examined the excised portions of the Battelle memorandum requested during the deposition of Dr. John H. Dessauer on October 25, 1974, at page 380, and found them to concern litigation and patent matters. They remain

protected. The letter from Linowitz to Frank Steinhilper, both Xerox attorneys, does not lose its privileged character because it requested preparation of a presentation to be shared with Battelle, nor because of the reference to the opinion of Carlson. PX 336A. The question asked of Dr. Dessauer on October 30, 1974, at page 19, calling for an evaluation of basic patent protection asks for legal advice and need not be answered.[3/]

Patent Information

Xerox resists SCM's document request, Dessauer Deposition, Tr. 48 (Nov. 1, 1974), by asserting the attorney-client privilege but has failed to establish that the documents represent or reveal confidential communications from client to attorney. On the contrary, the documents are memoranda prepared by attorneys in the Xerox patent department.[4/] Ralabate Affidavit 3. They contain much public information (patent numbers, holders, dates of application and issuance), brief descriptions of the patents, and what Xerox characterizes as legal opinions regarding patent applicability. The public information is not protected. See United States v. Silverman, 430 F.2d 106, 121-22 (2d Cir. 1970); United States v. United Shoe Machinery Corp., 89 F. Supp. 357, 359 (D. Mass. 1950). The technical information is probably discoverable as facts within the knowledge of Xerox. See City of Philadelphia v. Westinghouse Elec. Corp., 205 F. Supp. 830, 831 (E.D. Pa. 1962). Legal departments are not citadels in which public, business or technical information

may be placed to defeat discovery and thereby ensure confidentiality. See Natta v. Zletz, 418 F.2d 633, 637-38 (7th Cir. 1969). Whatever legal judgments are contained in the documents would merit protection, if at all, as work product, not by application of the attorney-client privilege. Hickman v. Taylor, 329 U.S. 495, 508 (1947).

Xerox's alternative claim to work product protection fails for another reason. Only PS 22049 and PS 91380 are specifically claimed to have been prepared in anticipation of litigation, Xerox Memorandum p. 165, and examination of the other documents does not reveal any basis from which to infer that they were sufficiently connected to litigation to merit protection. While some authority exists for broadly construing how far litigation may be anticipated, see Sylgab Steel & Wire Corp. v. Imoco-Gateway Corp., 62 F.R.D. 454 (N.D. Ill. 1974); American Optical Corp. v. Medtronic, Inc., 56 F.R.D. 426 (D. Mass. 1972); Stix Products, Inc. v. United Merchants Manufacturing, Inc., 47 F.R.D. 334 (S.D.N.Y. 1969), no decisi has stretched the concept to the extent requested here. A specific claim must have arisen to make the prospect of litigation identifiable in order for the work product rule to apply. See Sylgab Steel & Wire Corp. v. Imoco-Gateway Corp., supra; Abel Investment Co. v. United States, 53 F.R.D. 485 (D. Neb. 1971); Technograph, Inc. v. Texas Instruments, Inc., 43 F.R.D. 416 (S.D.N.Y. 1967).

Xerox has failed to establish the strict applicability of either the attorney-client privilege or the work

product doctrine. Nevertheless, this Court retains some hesitancy about forcing counsel to hand over documents concerning its patents to a party opponent. Cf. Hickman v. Taylor, 329 U.S. 495, 510 (1947). On this motion, the balance between discovery policies and hesitancy to unlock an adversary attorney's file will be struck in favor of disclosure. Here the requested documents reveal lists of patents and their commercial uses according to Xerox's patent department. Were this simply a patent case such discovery might not be allowed because, in listing patents, the lawyer's implicit judgments as to coverage might be significant. But in the context of this antitrust action the detail of the material to be disclosed may be probative without any regard to a lawyer's judgment as to the coverage of any particular patent. What will be important will be whether SCM can establish that Xerox retained a large number of unused patents. No claim to protection having been sustained, the documents submitted in response to this discovery motion and so far discussed should be produced to SCM.

PS 22049 and PS 91380 are claimed to have been prepared in connection with a 1970 patent infringement suit. Once having been work product, these documents do not automatically lose that protection in subsequent litigation. Duplan Corp. v. Moulinage et Retorderie de Chavanoz, 487 F.2d 480 (4th Cir. 1973); see Republic Gear Co. v. Borg-Warner Corp., 381 F.2d 551, 557 (2d Cir. 1967); cf. Midland Investment Co. v. Van Alstyne, Noel & Co., 50 F.R.D. 134 (S.D.N.Y.

1973). It is not clear whether the series of patent infringement suits filed by Xerox against IBM has been concluded or whether the underlying dispute has been settled. So, while this antitrust action was not the litigation "viewed" by Xerox attorneys preparing these papers, the legal opinions and facts contained therein may remain protected as work product. Compare Republic Gear Co. v. Borg-Warner Corp., supra, with Duplan Corp. v. Moulinage et Retorderie de Chavanoz, 509 F.2d 730 (4th Cir. 1974), cert. denied, 420 U.S. 997 (1975). Furthermore, SCM has not demonstrated substantial need for these specific materials, nor any undue hardship in being able to obtain substantially equivalent information. Fed. R. Civ. P. 26(b)(3).

The interrogatories present somewhat different questions. Interrogatory 62 asks for (a) identification of each patent used in Xerox duplicators and (b) identification of each presently pending patent application. It is uncontested that from the 1950's until approximately January, 1972, when a change in policy was implemented, Xerox had affixed data plates to its machines either listing the patents used or representing that a list of patents used in that machine would be supplied upon request. That policy and the reinforcing testimony of Linowitz establish that such patent information was not intended to be kept confidential during that time period, and it is not now protected. Xerox should answer interrogatory 62(a) as it relates to models that bore such legends. See 8 Wigmore, supra, § 2311.

Xerox need not express its opinions as to which patents were used in its machines after January, 1972, when a change in its policy of disclosure was implemented, nor as to duplicators that never carried a legend promising disclosure. Xerox's responses to third-party requests for patent information before the change in policy did not include the listing of patents pending, and there is no indication that Xerox ever intended to make public its opinions concerning which pending patents were employed in its products. That information need not be disclosed now. These aspects of the interrogatory requests not simply duplicative of the document discovery would require Xerox to formulate opinions not required to particularize any of its own claims. It is also the type of burdensome trial preparation that Xerox need not undertake for SCM, especially in light of the document discovery being granted. See Pre-Trial Ruling No. 12 at 3 (May 29, 1975). Similarly, interrogatory 63 need not be answered -- it concerns Rank-Xerox and Fuji-Xerox duplicators.

Inquiry into Reasons for Decisions and State of Mind

In this group of questions the issue is whether SCM may ask for reasons underlying particular decisions or actions when the answer will reveal legal advice received and thereby disclose a privileged conversation between client and attorney. Communications by the attorney to the client in the consultation process are privileged when they state or imply facts communicated to the attorney in confidence. See United States v. Silverman, supra, 430 F.2d at 122. The claims to privilege

by Xerox executives will not be circumvented by framing the question to request reasons for a decision when there is every indication that those reasons are limited to reliance on protected legal advice. It is true that a client's knowledge of facts may not be cloaked under the attorney-client privilege by incorporating a statement of those facts in a communication to the attorney. But privileged advice does not lose its protection when the client adopts it. To allow a litigant to probe beyond the assertion of privilege to the substance of the legal advice because the client takes that advice to heart and acts upon it would effectively circumvent the protection of the privilege. For this reason when a deponent answered a question about his reasons by saying that he was only relying on his attorney's legal advice, that answer is a sufficient response. Dessauer Deposition, Tr. 71 (Dec. 5, 1974); Linowitz Deposition, Tr. 568 (Nov. 25, 1974).

Along the same lines, when SCM asked for considerations or asked questions to elicit what it characterizes as a state of mind, and the response clearly indicated that the deponent was relying on legal advice, the attorney-client privilege will apply. McColough Deposition, Tr. 922 (June 26, 1974), 967 (Sept. 20, 1974), 1648 (Dec. 20, 1974); Dessauer Deposition, Tr. 19 (Oct. 30, 1974).[5/]

A related problem arises with respect to a group of deposition questions asking McColough for the reasons or considerations involved in decisions to grant or refuse licenses; he responded that the business and legal reasons were so

particular course of action. See Simon, The Attorney-Client Privilege as Applied to Corporations, 65 Yale L.J. 953, 955-56 (1956); cf. City of Philadelphia v. Westinghouse Elec. Corp., supra.

McColough has stated that he was concerned with both business and legal aspects of the licensing decisions. Since McColough was unable to separate these aspects he is ordered to answer the eight questions listed below in an affidavit to be submitted for in camera inspection and describe the decisionmaking process so that the Court may determine whether the business considerations are the type of "relevant nonlegal considerations" incidental to legal consultation referred to by Judge Wyzanski in United States v. United Shoe Machinery Corp., supra. McColough Deposition, Tr. 251 (June 18, 1974), 1494, 1496-97, 1504-05 (Dec. 19, 1974), 1663 (Dec. 20, 1974), 1783 (Mar. 3, 1975), 1819, 1827 (Mar. 4, 1975).

Finally, the four questions asked to elicit the evaluation of business interests affected by the eventual expiration of the basic Carlson patents should be answered. Dessauer Deposition, Tr. 370 (Oct. 25, 1974), 71 (Oct. 31, 1974); Linowitz Deposition, Tr. 525, 527 (Nov. 25, 1974). While those business interests might ultimately be influenced by the strictures of law, basic business effects, considerations, and policy should be disclosed. The substance of particular legal advice is not ordered to be revealed; patent or antitrust advice from counsel may remain undisclosed.

Communications Between Executives[6/]

This group of questions involves communications between Xerox executives. A privileged communication should not lose its protection if an executive relays legal advice to another who shares responsibility for the subject matter underlying the consultation. See Sylgab Steel & Wire Corp. v. Imoco-Gateway Corp., supra, 62 F.R.D. at 456; United States v. Aluminum Company of America, 193 F. Supp. 251, 253 (N.D.N.Y. 1960). It would be an unnecessary restriction of the privilege to consider it lost when top management personnel discuss legal advice. For this reason Dr. Dessauer's claim to privilege on November 1, 1974, page 58, is sustained.

As previously discussed, however, business factors relevant to a corporate decision are not entitled to protection unless they are merely incidental considerations helping to inform the legal advice. When the ultimate corporate decision is based on both a business policy and a legal evaluation, the business aspects of the decision are not protected because legal considerations are also involved.

Dr. Dessauer was asked a series of questions about the discussions that led to his vote authorizing the acquisition of Rank-Xerox stock from Rank. Dessauer Deposition, Tr. 89 l. 20, 90 (Apr. 23, 1975). Were the discussions intended to communicate confidential legal considerations, he would possess a valid claim to privilege since his testimony was that no business reasons for the purchase were shared with him that he could recall. See id. at 88 l. 5, 90, l. 19, 91 l. 17. Since those legal considerations appear to have been

shared with Rank, however, the requisite confidentiality is lacking, and Dr. Dessauer is directed to answer the questions.[7]

McColough's conversations with Wilson about potential future antitrust problems took place against a background suggesting that they were discussing the recent recommendation of their corporate counsel concerning licensing policy and antitrust implications. A discussion between executives of legal advice should be privileged. McColough Deposition, Tr. 934 (Sept. 20, 1974). Similarly when McColough was asked what he knew and what Wilson had said about the scope of patent coverage and he answered that everything he and Wilson knew about Xerox's patent coverage came from its lawyers, the privilege attached. Id. 1730-32 (Mar. 3, 1975). That privilege would not extend blanket protection over Wilson's business evaluations of the best way to proceed as an enterprise, however. Conversations between executives about the company's business policies are not protected. See United States v. International Business Machines Corp., 66 F.R.D. 206, 210 (S.D.N.Y. 1974).

McColough was asked on June 19, 1974, at page 319, whether there had been any discussions of the impact of bringing a patent infringement suit on IBM's marketing efforts. The process leading to the decision whether to sue or not is the type of decisionmaking process that requires the best informed recommendation of counsel and the fullest cooperation of the client. Still, discussions separate from substantive legal considerations that eventually feed into the corporate

decision and are directed at the possibility of securing a business advantage should not be protected. The question should be answered.

Linowitz was asked a series of questions about discussions with Wilson concerning the readjustment of the Xerox-Battelle relationship. Linowitz's claim to privilege extends only to substantive legal discussions not shared with Battelle. Linowitz Deposition, Tr. 447 (Oct. 10, 1974). It is hard to see how the value Xerox placed on the rights to future technology developed by Battelle could be considered privileged since that value must have been a subject of negotiation with Battelle. The question asked of Linowitz on October 10, 1974, at page 460, should be answered. The question asked of him on November 25, 1974, at page 532, is moot.

Dr. Dessauer asserted the privilege when asked whether he had ever recommended that Xerox act to prevent another company from becoming a competitor. Dessauer Deposition, Tr. 72-74 (Dec. 5, 1974). In order to resolve the claim of privilege, Dr. Dessauer should submit for in camera inspection his affidavit setting forth the circumstances of any discussion in which he made such a recommendation, with whom he was speaking, and what he said.

Waiver

In PX 89, a letter from Linowitz to Wilson reporting a meeting with an IBM executive and a discussion of licensing, 12 lines have been excised that contain legal evaluations by

Linowitz. McColough Deposition, Tr. 959 (Sept. 20, 1974). SCM claims that PX 212 discloses the substance of Linowitz's advice and vitiates the protection otherwise attaching to that statement. Xerox argues that the crucial sentence in PX 212 was left in it through inadvertence. Xerox points to the fact that the initial production of the document to the FTC did not include the critical reference. Xerox's affidavits imply that after documents were screened for production to the FTC they were thereafter simply copied en masse and not examined again for privileged information. If that was the case, the somewhat troublesome claim of inadvertence will be accepted and the claim to privilege sustained. If the documents were, in fact, individually screened for privileged material before being forwarded to Litton, IBM, and SCM, the repeated inclusion of the statement would not be easily excused. On the state of the affidavits as they now stand, the claim of inadvertence is upheld and no waiver established. Accordingly, McColough need not answer the questions asked on June 26, 1974, at page 869, and on September 20, 1974, at page 957, of his deposition.

SCM's waiver argument is stronger concerning the Cole memorandum. McColough Deposition, Tr. 986 (Sept. 20, 1974). Recent testimony, Linowitz Deposition, Tr. 10-12 (Nov. 18, 1975), reveals that much of the substance of Whitney North Seymour's advice concerning IBM's licensing request, the subject of the memorandum, was shared with IBM. The disclosure goes to the substance and strategy of Seymour's

analysis and is sufficient to constitute a waiver of the section of the Cole memorandum entitled IBM, at 3-4. McColough should also answer the related question asked of him on June 26, 1974, at pages 867-68.

Dr. Dessauer's colloquy with counsel concerning whether he believed Xerox could take advantage of the patent system and the impact of antitrust laws did not waive any attorney-client privilege. Dessauer Deposition, Tr. 25-26 (Apr. 23, 1975). He merely testified that Xerox retained counsel and endeavored to follow his legal advice. The substance of those legal consultations may remain privileged. Dessauer Deposition, Tr. 30 (Apr. 23, 1975).

SCM asks, on the ground of waiver, that McColough be instructed to answer a question about Wilson's statements concerning the scope and extent of Xerox's patent coverage. As the factual predicate for this conclusion, SCM recites numerous public statements by Xerox executives. These statements are general, vague, and conclusory. In substance they reveal that Xerox thought patents important to its business, that Xerox held hundreds of patents, and that Xerox considered itself to be successfully pursuing a powerful patent position. These self-interested characterizations may have had some public relations benefit, but they hardly amount to a waiver. See Bose Corp. v. Linear Design Labs, Inc., 71 Civ. 3103 (S.D.N.Y. Mar. 10, 1975).

SCM also urges waiver based on certain disclosures that Xerox claims were inadvertently made during extensive

document production. On the basis of the Xerox affidavits, the inadvertence is sufficiently established to preclude the use of these disclosures as grounds for waiver. The claim to privilege is sustained, and related questions need not be answered. McColough Deposition, Tr. 1730 (Mar. 3, 1975).

The claim of waiver because of Wilson's letter to William Call, PX 370, stating that the whole Electrofax development was dominated by basic xerographic patent protection, is denied. Linowitz Deposition, Tr. 775 (Jan. 1, 1975). While more specific than the other statements of Xerox executives, this disclosure does not rise to the level at which fairness would demand that the privilege cease. See Wigmore, supra, § 2327. Finally, SCM's claims of waiver as to infringement of Xerox patents are also denied. McColough Deposition, Tr. 251 (June 18, 1974), 1648 (Dec. 20, 1974).

The Court expects that the decisions expressed in this ruling will provide sufficient guidance to the parties to enable them to resolve any remaining disputes as to the availability of the attorney-client privilege. Obviously resort to the Court every time a deposition question encounters a claim of privilege is impractical. If hereafter an issue of privilege arises in a context reasonably governed by this ruling, and a party either asserts the privilege or claims its unavailability in contravention of the decisions in this ruling, significant sanctions will be imposed.

Dated at New Haven, Connecticut, this 4 day of February, 1976.

Jon O. Newman
United States District Judge

FOOTNOTES

1/ Note, Waiver of Attorney-Client Privilege on Inter-Attorney Exchange of Information, 63 Yale L.J. 1030, 1035 (1954).

2/ See Note, The Attorney-Client Privilege in Multiple Party Situations, 8 Colum. J.L. & Soc. Prob. 179, 189 (1972).

3/ See Inquiry into Reasons for Decisions and State of Mind, infra.

The following question asked what Dr. Dessauer considered to be the "technical advantage." Dessauer Deposition, Tr. 19 11. 9-20 (Oct. 30, 1974). That question appears to be directed at business considerations, e.g., an evaluation of products with those of competitors. Dr. Dessauer did discuss that question later in his deposition testimony. Id. at 32-34. Dr. Dessauer should have also answered the earlier question now in dispute and is directed to do so.

4/ This discussion is particularly concerned with PS 91130, PS 91378, PS 1741, PS 21189, PS 90299, PS 91459, and PS 91465.

Other documents submitted for in camera inspection involve requests from third parties for lists of patents promised by legends on certain Xerox machines and Xerox internal communications in preparing its responses. PS 296, PS 101387, PS 101390, PS 101391, PS 101392, PS 101393. The internal documents were circulated between Xerox patent attorneys and the office of its general counsel. Legal opinions regarding patent coverage contained in these documents were ultimately revealed to the third parties and confidentiality thereby relinquished. The other content of the documents merely reveals the mechanics of responding to the intercorporate inquiry and does not merit the protection of the privilege.

5/ It is apparent that the response to the question asked Dr. Dessauer on April 23, 1975, at 29-30, would encounter the same claim, reliance on legal advice.

6/ Xerox has withdrawn its claims to privilege for the documents requested at Dr. Dessauer's deposition on October 30, 1974, at page 67, and February 12, 1975, at page 94.

7/ Ordinarily he would only have to answer a question asking his reasons for voting in a particular way as a director by revealing his business reasons. Dessauer Deposition, Tr. 89 l. 5 (Apr. 23, 1975). Here his reasons should also include the legal considerations that were shared with Rank during negotiations.

Pre-Trial Ruling No. 19

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

FILED

Dec 9 11 45 AM '76

U.S. DISTRICT COURT

SCM CORPORATION :

V. : CIVIL NO. 15,807

XEROX CORPORATION :

PRE-TRIAL RULING NO. 19

I.

This Ruling, prompted by Xerox's motion for reconsideration of certain aspects of Pre-Trial Ruling No. 17, concerns primarily the availability of the attorney-client privilege to protect disclosure of documents prepared by attorneys in Xerox's patent department. Xerox asserts privilege on the ground that these documents include legal opinions of its patent attorneys concerning the coverage of particular machines by specified patents. Whether reconsideration can produce the clarification Xerox seeks is in some doubt, but since the issue arises in a field plagued by vague and often inconsistent judicial decisions, it may be useful to attempt a further discussion of the problem.

1. An initial question is whether the privilege protects all advice from attorney to client, or only advice that reveals (by adoption or implication) a fact communicated in confidence by the client to the attorney. The narrow position was set forth with emphatic precision by Judge Wyzanski in his oft-cited opinion in United States v. United Shoe Machinery Corp., 89 F. Supp. 357, 358 (D. Mass. 1950)

("the communication relates to a fact of which the attorney was informed (a) by his client (b) without the presence of strangers (c) for the purpose of securing primarily either (i) an opinion on law or (ii) legal services or (iii) assistance in some legal proceeding . . ."). Among cases explicitly adhering to this view are Colton v. United States, 306 F.2d 633, 637 (2d Cir. 1962); United States v. International Business Machines Corp., 66 F.R.D. 206, 211-12, 215 (S.D.N.Y. 1974); Bird v. Penn Central Co., 61 F.R.D. 43, 46 (E.D. Pa. 1973); Sperti Products, Inc. v. Coca-Cola Co., 262 F. Supp. 148, 149, 151 (D. Del. 1966); American Cyanamid Co. v. Hercules Powder Co., 211 F. Supp. 85, 87, 90 (D. Del. 1962).[1/] See also McCormick, Evidence § 93 (1954).

The broader position, protecting any legal advice from attorney to client, is supported by Dean Wigmore, 8 Wigmore, Evidence § 2320 (McNaughton Rev. 1961), and has been stated in some decisions, e.g., Natta v. Horan, 392 F.2d 686, 692-93 (10th Cir. 1968); American Optical Corp. v. Medtronics, Inc., 56 F.R.D. 426, 430 (D. Mass. 1972)(alternate holding). Other decisions such as Jack Winter, Inc. v. Koratron Co., 54 F.R.D. 44, 46 (N.D. Cal. 1971), and United States v. Aluminum Co. of America, 193 F. Supp. 251, 253 (N.D.N.Y. 1960), have implied the use of a broad rule, but without noting whether or not the advice was based on a fact communicated by the client. That the advice was actually based on such a fact seems likely in some of these cases. Indeed, the ALCOA ruling states the broader rule but specifically cites

the narrower United Shoe standard as "outlining the requirements to be shown by the party asserting the privilege." Id. at 252.

This split in authority is further complicated by two decisions within this Circuit. In Georgia-Pacific Plywood Co. v. United States Plywood Corp., 18 F.R.D. 463 (S.D.N.Y. 1956), then District Judge Kaufman quoted Judge Wyzanski's formulation of the narrow standard and then observed, "Since communications by the attorney to the client might reveal the substance of a client's communication they are also within the privilege." Id. at 464. Again, the statement of a broader rule coupled with citation to the narrower United Shoe standard is perplexing. I think it unlikely that Judge Kaufman intended to abrogate the limitation contained in Judge Wyzanski's formulation, which he quoted at length. Perhaps Judge Kaufman meant only that if it is not clear whether the communication from the attorney relates to a fact disclosed to him by the client, the privilege should apply to guard against the risk of revealing client confidences. That approach would simply ease the client's burden of demonstrating that the privilege applies, but would not extend the privilege to communications from the attorney that demonstrably do not relate to facts disclosed by the client.

In United States v. Silverman, 430 F.2d 106 (2d Cir. 1970), the issue was the relatively easy one of whether the privilege protected against disclosure at trial of an attorney's report to a client union that disclosed minutes of a

union meeting. The Second Circuit held that the report was not privileged since no confidential communication was involved, the minutes being public records. The uncertain significance of the decision arises from the inclusion and subsequent deletion of a paragraph that specifically articulated the narrow standard, protecting communications from attorney to client only when they reveal confidential communications from client to attorney. Id. at 122. Upon petition for rehearing, the Court of Appeals deleted this paragraph from its prior opinion. United States v. Silverman, 439 F.2d 1198 (2d Cir. 1970). This was done "to avoid any . . . impression" that the earlier opinion made "an exception to the attorney-client confidential communication rules." Ibid. Xerox contends that the deletion demonstrates the Second Circuit's rejection of the narrow standard. I agree with Judge Edelstein that the deletion should not be given such significance. United States v. International Business Machines Corp., supra, 66 F.R.D. at 215. Neither the inclusion nor the deletion of the paragraph had any bearing on the Silverman holding, which rested entirely on lack of confidentiality. It is as likely that the paragraph was deleted because it was unnecessary as because it was an incorrect statement of the law. Or the Court may have been concerned that the deleted paragraph, describing attorney's advice as unprivileged unless it has the effect of revealing client confidences, stated the narrow standard too strictly; advice that risks disclosure of client confidences is entitled to protection, even under the narrow

standard. See Georgia-Pacific Plywood Co. v. United States Plywood Corp., supra. Moreover, the Silverman opinion, even as unmodified, cited with approval the Court's prior decision in Colton v. United States, supra, which supports the narrow standard.

One other source of "guidance" should be noted. The Federal Rules of Evidence, as originally proposed by the Supreme Court, contained a detailed provision for the attorney-client privilege, which dispensed entirely with the qualification that the attorney's advice relate to facts communicated by the client. See proposed rule 503(b), 56 F.R.D. 183, 236 (1972). The proposed rule would have protected any confidential communication from attorney to client "made for the purpose of facilitating the rendition of professional legal services to the client." Inexplicably the Advisory Committee's Note does not discuss the two lines of authority on this point, nor even mention the choice implicitly made. While the proposed rules, even to the extent rejected by Congress, are nonetheless some evidence of "the principles of the common law" that are to govern privilege questions arising under claims founded on federal law, Fed. Rules Evid. Rule 501; see Eutectic Corp. v. Metco, Inc., 61 F.R.D. 35, 38 n.1 (E.D.N.Y. 1973), I cannot accept proposed rule 503(b) as authoritative, especially in view of the total absence of any reasoned explanation from the drafters for resolving an unsettled question. See Duplan Corp. v. Deering Milliken, Inc., 397 F. Supp. 1146, 1160-61 (D.S.C. 1974).

I see no reason to broaden the privilege beyond the narrow standard as set forth in United Shoe. The purpose of the privilege is to insure that the client may confide in his attorney to obtain legal advice. Unless the legal advice reveals what the client has said, no legitimate interest of the client is impaired by disclosing the advice. Wigmore's discussion of the broader standard concedes that it is not based on "any design of securing the attorney's freedom of expression." Wigmore, supra, § 2320, at 629. His rationale is twofold: to prevent use of the attorney's statements as admissions of the client or as revelations of the client's communication. The latter reason, of course, is safeguarded by the explicit requirement of the narrow standard. That same requirement seems adequate to protect against admissions entitled to protection. If the attorney's statement is based upon a fact communicated by the client, its use as an admission is barred by the availability of the privilege, even under the narrow standard. If the attorney makes an admission as agent for his client, without revealing a fact confidentially communicated from the client, no reason appears why such admission should be protected.[2/] Thus, Wigmore's reasons for adopting the broad standard are adequately satisfied by the narrow standard.

Whether the Georgia-Pacific qualification should be adopted is a closer question. Extending the privilege to communications from the attorney that "might" reveal client confidences reverses the normal approach that places the

burden of establishing entitlement to the privilege on the client who claims it. On the other hand it does serve the purpose of the privilege by maintaining a client's ability to confide fully in his attorney. Without the protection for attorney communications that arguably contain client confidences, clients might be inhibited from confiding in their attorneys for fear that they might not be able to demonstrate that the attorney's communication was in fact based on their communication to him. The risk of such inhibition is virtually removed by holding the privilege unavailable when the attorney's communication is demonstrably based on facts that did not come from the client in confidence.

2. A second issue is whether the attorney's advice is privileged only when communicated to the client or whenever expressed in confidence, such as in a memorandum to his own file. Hickman v. Taylor, 329 U.S. 495, 508 (1947), provides at least the basic answer when it states: "Nor does this privilege concern the memoranda, briefs, communications and other writings prepared by counsel for his own use in prosecuting his client's case; and it is equally unrelated to writings which reflect an attorney's mental impressions, conclusions, opinions or legal theories." Accord Natta v. Zletz, 418 F.2d 633, 637-38 (1969); see also Dura Corp. v. Milwaukee Hydraulic Products, Inc., 37 F.R.D. 470, 473 (E.D. Wis. 1965).

Of course, the attorney's opinion and legal theories, even if recorded in his own files, are privileged under the

narrow standard of United Shoe if they reveal information supplied in confidence by the client. But absent such information from the client, it is only the work product rule and not the privilege that protects the attorney's uncommunicated expression of opinion.

3. A third issue concerns the role of in-house patent counsel. Judge Wyzanski observed in United Shoe that in view of the usual duties of a person in a corporate patent department, the relationship of such a person to the corporation is "not that of attorney and client." 89 F. Supp. at 361. Significantly he illustrates the non-privileged activity of such a person with the example of spending time on "questions . . . of the scope of public patents . . . ." Id. at 360. Subsequent cases have somewhat refined the broad statements in United Shoe by regarding the communications of in-house patent counsel as privileged or not, depending on what the attorney is doing in the particular communication being examined. Jack Winter, Inc. v. Koratron Co., 50 F.R.D. 225 (N.D. Cal. 1970); Chore-Time Equip., Inc. v. Big Dutchman, Inc., 255 F. Supp. 1020 (W.D. Mich. 1966); American Cyanamid Co. v. Hercules Powder Co., supra; Zenith Radio Corp. v. Radio Corp. of America, 121 F. Supp. 792, 794 (D. Del. 1954) (no privilege when concern is with "scope of public patents"). The privilege is not available when the communication from in-house patent counsel does not apply rules of law to confidential communications received from the client, Paper Coverting Machine Co. v. FMC Corp., 215 F. Supp. 249, 252

(E.D. Wis. 1963), but this is because that type of communication is not privileged not because the person transmitting it is (a) in-house, (b) a patent lawyer, or (c) doing what some might regard as non-legal work.

In some situations the statements of in-house patent counsel might appropriately be viewed as privileged statements of the client.[3/] This could occur, for example, if patent counsel assembled a list of patents owned by his company but not, in his opinion, being used, and sent that list to the general counsel or outside counsel with a request for advice as to whether the retention of the unused patents created risk of antitrust liability. While the patents are public, the patent attorney's opinion as to their non-use adds a non-public ingredient, which if communicated in confidence to seek legal advice might well be entitled to protection.

From this discussion it is apparent that the documents in issue are not entitled to protection. They do not reveal facts communicated by the client in confidence. To the extent they may express legal opinions, these concern the scope of public patents. It does not even appear that the documents were communicated to the client; however, even if routine transmission of information copies to the general counsel's office could be considered communication with the client, the "communication" is still not privileged since it demonstrably reveals no confidences of the client. Finally, there is no indication that in-house patent counsel were seeking anyone's legal advice concerning the contents of these

documents. Indeed, Xerox's contention is that patent counsel were giving, not receiving, legal advice. With the attorney-client privilege not available to protect these documents, they are properly discoverable, the work product protection having been accorded in Pre-Trial Ruling No. 17 only to those documents prepared with an eye to litigation.[4/]

II.

Xerox also seeks reconsideration of the ruling that there was not a sufficient showing of a shared exposure of Xerox and The Rank Organisation to antitrust liability during Xerox-Rank negotiations to justify considering the legal advice given to Xerox officials in the presence of Rank officials as sufficiently confidential to remain privileged. To bolster its claim, Xerox has now taken the somewhat unusual step of submitting ex parte for the Court's in camera inspection an affidavit from counsel for Rank, purporting to demonstrate the substantiality of the risk of shared exposure.

SCM strenuously objects to the ex parte submission. This is not a situation where a court directs allegedly privileged matter to be submitted for in camera inspection so that a determination can be made from the contents as to whether the privilege applies. Here Xerox is seeking to establish circumstances to demonstrate that deposition questions need not be answered because they call for allegedly privileged answers. Furthermore, SCM contends there is simply no reason why Xerox should be permitted to relitigate the point with a late submission that could have been produced

before. Without doubting that there is considerable force to both objections, I prefer to rest decision on the unpersuasiveness of the affidavit itself.

The affidavit was executed by Rank counsel and obtained by Xerox counsel for use in litigation. It seems reasonable to assume it was worded with some care, and that the representations go as far toward advancing Xerox's position as the oath would permit. While there is a conclusory reference to "the possibility of shared exposure to antitrust attack or liability," there is simply no sufficient basis for a finding that Rank and Xerox were jointly interested in the legal advice Xerox counsel gave during the course of arm's length negotiation between the two entities. The affidavit significantly omits any indication that Rank counsel ever suggested to his client the possibility of shared exposure to antitrust liability. Rank counsel refers to his own assessment that there "might" be a challenge and that a challenge "could" involve Rank. This assessment, he says, was communicated to Xerox representatives, together with his view that there was no antitrust violation.

Of course there need not be a clear demonstration of actual liability before a third party and a client can be considered to have a sufficiently common interest in legal advice. And the prospect of liability need not arise solely in the context of trial preparation. But a client's sharing of its attorney's advice with a third party is not in confidence simply because the third party's lawyer thought

that there "might" be a challenge, which "could" involve his client. Unless the interests of the parties are demonstrably common, as when potential defendants discuss grand jury questioning, Continental Oil Co. v. United States, 330 F.2d 347 (9th Cir. 1964), or intended pleas, Haydon v. United States, 355 F.2d 183 (9th Cir. 1965), the risk of shared exposure must at least be sufficiently substantial to have prompted the third party's lawyer to counsel his client regarding the prospective hazard.

The conclusory statements contained in the affidavit do not dispel the view that Xerox wanted to change the arrangement, without any serious concern about potential liability of Rank. As the Xerox president acknowledged at his disposition, the meetings and statements discussed "legal considerations affecting Xerox." McColough Deposition, Tr. 2251-52 (May 1, 1975). What Xerox has failed to demonstrate is that when its personnel discussed legal advice they had received with personnel of Rank, the Xerox personnel had any reasonable basis for assuming that the advice was of such common interest to Rank or sufficiently concerned the risk of Rank's shared exposure to liability as would make the advice privileged from subsequent disclosure. Advice discussed with a negotiating adversary in the absence of circumstances supporting such a reasonable expectation is not entitled to protection.

III.

Xerox requests reconsideration of the ruling

requiring it to answer Interrogatory No. 62(a), which requests identification (by inventor, number, and date and country of issue) of each patent ever used in plain paper office copiers and duplicators manufactured or marketed by Xerox at any time. Pre-Trial Ruling No. 17 required Xerox to answer that Interrogatory as to all models that bore a legend either listing the patents used or representing that such a list would be furnished upon request. Citing other language in the Ruling that declined, partly because of undue burden, to order Xerox to formulate claims as to patent coverage for machines that did not bear such a legend, Xerox contends the Court must have intended to require an answer to Interrogatory No. 62(a) only to the extent that opinions as to coverage are already in existence. Xerox is correct in suggesting that the Court did not expect that response to Interrogatory No. 62(a), to the extent allowed, would entail much of a burden. The Court assumed that when Xerox represented to the public that a list of patents would be furnished upon request, there must exist some documents that would have enabled Xerox to respond to such an inquiry with reasonable promptness. It is hard to believe that Xerox would have answered a request by saying, "We have documents that list some patents being used, but it will be an enormous burden for our patent department to complete the analysis necessary to list all the patents being used."

Nevertheless Xerox asserts that in fact the available documents do not list all of the patents used on machines

that bore the legend promising to furnish such information. No claim is made that such documents formerly existed but have since been destroyed. Nor has Xerox contended that it lacked the ability to furnish to consumers the list of patents it represented it would supply. It may well be that no single document contains a list of patents used in each machine. However, unless the Xerox representation to the public was misleading, Xerox must have some material in its files from which the requested lists can be assembled.

Xerox's own internal documents submitted to the Court and ordered produced under Pre-Trial Ruling No. 17 reveal that this is not the first time Xerox has sought to place obstacles in the way of those who simply ask it to honor the public representation it has made. In January, 1967, a request was made for patents used in three machines. Xerox responded with a list of all patents owned by Xerox Corporation. Undaunted by the overkill, the inquiry was renewed, with the request limited to patents used in a single machine. That letter went unanswered. A renewed request in April evoked a reply in May, which stated: "We did send to you a list of certain of our patents, and I am afraid I cannot tell what additional specific information you need." In June the persevering requester reminded Xerox that his inquiry concerned only the patents covering the Model 914, charitably suggesting that the complete list of all patents had been sent inadvertently. That letter was circulated internally for guidance with the notation "We do have a list of 914 patents

which we don't ordinarily send out." (Emphasis in original). Ultimately wiser heads prevailed, and the January request was complied with on August 1. Two years later a request for patents relating to another machine evoked a different tactic. Though an internal document had identified 14 unexpired patents that "probably" related to the machine, the requester was sent six patents with this explanation: "We are enclosing some typical patents which outline our processes . . . ."

The Court does not expect that Xerox patent personnel will now begin an analysis of every patent and make discrete judgments as to whether or not they read on every machine. Much of the required listing is already reflected in the documents already ordered to be produced. As to many patents, it must be readily ascertainable that they do not apply to any machines. If bona fide doubt exists whether some patents are used in a particular machine, the interrogatory response can forego definitive answers in favor of an indication of probable coverage. Abuse of this limited leeway will encounter sanctions.

Except to the extent modified in the prior paragraph, the motion to reconsider Pre-Trial Ruling No. 17 is denied. Documents ordered to be produced by that Ruling shall be given to SCI by March 15. Interrogatory responses, and in camera submissions required by that Ruling shall be filed by March 31.

Dated at New Haven, Connecticut, this 9 day of March, 1976.

Jon O. Newman
United States District Judge

FOOTNOTES

1/ It is probably fair to include in this category § in 1 Pet Products, Inc. v. Swift & Co., 218 F. Supp. 253 (S.D.N.Y. 1963). It states "the advice of counsel based upon the confidential communications of a client is privileged." Ibid. It also states "legal advice rendered to a corporation by an attorney in its employ falls within the attorney-client privilege." Ibid. This appears to be a statement that house counsel are within the scope of the privilege, without broadening the privilege to dispense with the requirement of advice based on confidential communications from the client. The citation to United Shoe points in that direction, although the citation to the broader rule stated in 8 Wigmore, Evidence § 2320 (McNaughton Rev. 1961) points the other way. See also J. P. Foley & Co. v. Vanderbilt, 65 F.R.D. 523, 526 (S.D.N.Y. 1974).

2/ The discussion in the Wigmore treatise concerning the need to prevent the use of the attorney's statements as admissions of the client refers the reader to § 1071, which concerns adoption by silence of statements made in one's presence. That situation too is adequately protected by the narrow standard. If an attorney's advice were admissible only because it had been tacitly adopted by the client, the tacit approval (equivalent to a spoken approval) is a confidential communication from the client to the attorney that would be revealed by the attempt to make the attorney's advice admissible. If the attorney's advice is admissible without adoption by the client, or, as in discovery, is useful to the adverse party without regard to whether it was adopted by the client, there is no reason to consider it privileged.

3/ This appears to be the view expressed in Dura Corp. v. Milwaukee Hydraulic Products, Inc., supra, in which in-house patent counsel is described as "an employee of the [corporation] serving as its patent counsel." Id. at 472. Communications between him and outside counsel were accorded the privilege, though communications between the same outside counsel and the corporation's associate counsel were considered outside the privilege because they were not communications between attorney and client. See also Duplan Corp. v. Deering Milliken, Inc., supra at 1167; Georgia-Pacific Plywood Co. v. United States Plywood Corp., supra at 464.

4/ In order to avoid possible misunderstandings concerning document identification, it should be noted that the reference to PS 90299 in Pre-Trial Ruling No. 17 n.4 should have been to PS 90295 et seq. Further, the documents identified by Xerox as PS 91130 actually begin with the designation PS 91330.

Order of
March 12, 1976

FILED
MAR 12 4 23 PM '76
U.S. DISTRICT COURT
HARTFORD, CONN.

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

SCM CORPORATION	:	
V.	:	CIVIL NO. 15,807
XEROX CORPORATION	:	

ORDER

Defendant having applied for certification pursuant to 28 U.S.C. § 1292(b) of some of the rulings contained in Pre-Trial Rulings Nos. 17 and 19, it is hereby

ORDERED that the compliance dates of those rulings are stayed until March 22, 1976. On that date the Court will either deny the request for certification or schedule a hearing on the application. If the application is denied, an order will be entered on that date extending this stay until March 26, 1976, to afford defendant an opportunity to pursue any available remedies before the Court of Appeals.

Dated at Hartford, Connecticut, this 12th day of March, 1976.

Jon O. Newman
United States District Judge

Pre-Trial Ruling
No. 21

U.S. DISTRICT COURT
NEW HAVEN, CONN.

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

SCM CORPORATION	:	
V.	:	CIVIL NO. 15,807
XEROX CORPORATION	:	

PRE-TRIAL RULING NO. 21

Xerox has sought an amendment to Pre-Trial Rulings Nos. 17 and 19 to include the determinations necessary to provide for interlocutory appeal pursuant to 28 U.S.C. § 1292(b) of two rulings contained therein. The first requires Xerox to produce documents containing the opinions of attorneys in its patent department as to the scope of various patents. The second requires Xerox officials to answer deposition questions concerning negotiations between Xerox and the Rank Organisation.

Interlocutory appeals of discovery rulings have been rejected by the Second and other Circuits, even when certification was made under § 1292(b). See Atlantic City Electrical Co. v. General Electric Co., 337 F.2d 844 (2d Cir. 1964); United States v. Woodbury, 263 F.2d 784 (9th Cir. 1959). See also McSparran v. Bethlehem-Cuba Iron Mines Co., 26 F.R.D. 619 (E.D. Pa. 1960)(certification denied). Review has been granted where the availability of deposition testimony was thought pertinent to a motion to dismiss, Garner v. Wolfinbarger, 430 F.2d 1093 (5th Cir. 1970), and where a district

judge announced, without precedent, the doctrine that the attorney-client privilege is unavailable to corporations. Radiant Burners, Inc. v. American Gas Association, 320 F.2d 314 (7th Cir. 1963).

I do not believe the two rulings challenged by Xerox are appropriate for certification for interlocutory review. Neither ruling concerns a matter such that "an immediate appeal from the order may materially advance the ultimate termination of the litigation" as required by § 1292(b). Reversal of either ruling would not eliminate a party, end litigation of a particular claim, nor otherwise spare the litigants any significant aspect of the trial. Despite Xerox's attempt to fragment the first ruling into four issues,[1/] it poses the single question of whether an attorney's opinion is privileged when it demonstrably does not reveal confidential communications from the client. While Pre-Trial Rulings Nos. 17 and 19 note some authority for the view that all attorney advice is privileged regardless of whether it reveals client confidences, such views have not been adopted in the Second Circuit, which appears to adhere to the narrower formulation of Judge Wyzanski's in United States v. United Shoe Mach. Corp., 89 F. Supp. 357 (D. Mass. 1950), see Colton v. United States, 306 F.2d 633 (2d Cir. 1962). Differing

1/ Xerox misapprehends Pre-Trial Ruling No. 19 concerning attorney's advice not communicated to the client. So long as disclosure of that advice would reveal confidential communications from client, it is privileged, even if contained in a memo to the file.. See Pre-Trial Ruling No. 19 at 7-8.

views outside the circuit have been thought not to satisfy the test of § 1292(b). Berger v. United States, 170 F. Supp. 795 (S.D.N.Y. 1959).

The second challenged ruling involves no controlling issue of law, but solely a question of whether adequate facts have been presented to satisfy a legal standard not disputed by the parties. Legal advice, if privileged, does not lose protection from disclosure when communicated to those with a sufficient common interest in the advice. Xerox has failed to demonstrate that this standard was met in the context of the Xerox-Rank negotiations. When the issue was first submitted for decision, no facts other than the existence of the joint venture supported this claim. After Pre-Trial Ruling No. 17, Xerox submitted an affidavit of Rank counsel, which was found in Pre-Trial Ruling No. 19 to be an insufficient basis for concluding that Rank was jointly interested in whatever legal advice Xerox communicated during the negotiations to alter the Xerox-Rank joint venture. Now Xerox alleges that an adequate showing was "implicit" in a paragraph of the attorney's affidavit. Xerox also discounts the significance of McColough's statement that "legal considerations affecting Xerox" were discussed by pointing out that no one asked McColough at his deposition whether Rank was affected. It is not for this Court to divine what is implicit in an attorney's affidavit, nor to assume what a deponent would say if asked a particular question. Xerox has had ample opportunity to submit affidavits of the Rank attorney,

McColough, or anyone else to demonstrate explicitly that the joint interest test was met in the context of the Xerox-Rank negotiations. There has simply been a failure of proof.

This litigation is in its third year, and a time-table for trial preparation and trial will shortly be issued. Interlocutory review at this time would cause a substantial delay which I do not believe is warranted. There is, however, one claim that might justify interlocutory review. This concerns the deletion of a concluding paragraph from the Court of Appeals' opinion in United States v. Silverman, 430 F.2d 106 (2d Cir. 1970), discussed in Pre-Trial Ruling No. 19. While I do not believe § 1292(b) certification is warranted on my reading of Silverman and the deletion, it is of course up to the Court of Appeals to say with finality whether that deletion has greater significance than I have given it. Xerox is certainly entitled to a brief stay to afford it an opportunity to petition the Court of Appeals for a writ of mandamus, though § 1292(b) certification is denied. See Harper & Row Publishers, Inc. v. Decker, 423 F.2d 487 (7th Cir. 1970).

Accordingly, the motion to amend Pre-Trial Rulings Nos. 17 and 19 to include certification pursuant to 28 U.S.C. § 1292(b) is denied, those Rulings, insofar as they concern the matters challenged by Xerox in its application for amendment, are stayed until March 26 to permit Xerox to seek a petition for writ of mandamus and a further stay from the Court of Appeals, and, in the event mandamus is denied, the deadlines in Pre-Trial Ruling No. 19, concerning the matters

here challenged, are extended by the interval from the date of that Ruling until decision by the Court of Appeals on a petition for writ of mandamus.

Dated at New Haven, Connecticut, this 22nd day of March, 1976.

Jon O. Newman
United States District Judge

Protective Order
9/16/75

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

SCM CORPORATION	:	
V.	:	CIVIL NO. 15,807
XEROX CORPORATION	:	

PROTECTIVE ORDER

The following order is hereby substituted for the protective order entered on January 8, 1974:

1. "Confidential information" as used herein means any type or classification of information which is designated as "Confidential" by either SCM or Xerox whether revealed during a deposition, in a document, in an interrogatory answer or otherwise, and which contains a trade secret or other confidential research, development, or commercial information of the party making the confidential designation. Information may be designated by a party as "confidential information" whether revealed by that party or any other person. There shall be three categories of such information: "R&D" embodying or referring to technology, "Technical" pertaining to patents, licensing and other matters relating to technology not "R&D," and "Non-Technical" pertaining to other subjects.

2. (a) With respect to R&D Confidential Information, "qualified persons" means: (i) outside counsel of record engaged in the preparation for trial of this action for the parties, including associate attorneys and stenographic and

clerical employees assisting such counsel, and (ii) experts not employed by, consultants to or otherwise affiliated with, the receiving party or other manufacturers or sellers of copying-duplicating equipment who are assisting counsel in the preparation of this action for trial.

(b) With respect to Technical Confidential Information, "qualified persons" means (i) outside counsel of record engaged in the preparation for trial of this action for the parties, including associate attorneys and stenographic and clerical employees assisting such counsel, (ii) in-house counsel engaged in the preparation for trial of this action including stenographic and clerical employees assisting such counsel, and (iii) experts not employed by, consultants to or otherwise affiliated with, the receiving party or other manufacturers or sellers of copying-duplicating equipment who are assisting counsel in the preparation of this action for trial.

(c) With respect to Non-Technical Confidential Information, "qualified persons" means (i) outside counsel of record engaged in the preparation for trial of this action for the parties, including associate attorneys and stenographic and clerical employees assisting such counsel, (ii) in-house counsel engaged in the preparation for trial of this action including stenographic and clerical employees assisting such counsel, and (iii) experts not employed by, consultants to or otherwise affiliated with, the receiving party or other manufacturers or sellers of copying-duplicating equipment who are assisting counsel in the preparation of this action for trial.

(d) Court reporters may be included as qualified persons with respect to all categories of confidential information upon agreement of the parties.

3. Any confidential information supplied in written or documentary form whether by a party or any other person shall promptly be labeled by the party claiming confidentiality with the designation "[Party's Name] [Technical, R&D or Non-Technical] Confidential." When confidential information is incorporated in a deposition transcript, arrangement shall be made with the reporter by the party claiming confidentiality to bind the reporter by the party claiming confidentiality to bind the confidential portions of the transcript separately and label it "[Party's Name] [Technical, R&D or Non-Technical] Confidential."

4. Subject to the provisions of Paragraph 11, any information designated confidential information shall be made available only to qualified persons who shall have read this Order and who shall agree to be bound by the terms thereof and who shall agree to maintain said information in confidence and not to use or reveal the same to anyone other than a qualified person in the same category of information and not to use the same except in connection with the trial or preparation for trial of this action; except that nothing shall prevent disclosure beyond the terms of this Order prior to trial if the party claiming confidentiality consents in writing to such disclosure, or if the party seeking such disclosure, upon notice, receives the approval of the Court.

5. All documents containing confidential information which are filed with the Court shall be filed in sealed envelopes or other appropriate sealed containers on which shall be endorsed the titel of the action to which it pertains, an indication of the nature of the contents of such sealed envelope or other container, the word "CONFIDENTIAL" and a statement substantially in the following form:

> "This envelope is sealed pursuant to order of the Court and contains confidential information filed in this case by [name of party] and is not to be opened or the contents thereof to be displayed or revealed except by order of the Court or pursuant to stipulation of both parties to this action."

Said envelope or container shall not be opened without further order of the Court except by counsel of record and in-house counsel who shall return the document to the Clerk in a sealed envelope or container.

6. All documents containing R&D Confidential Information and Non-Technical Confidential Information and notes or other records regarding the contents thereof, shall be maintained in the custody of outside counsel receiving such information and no partial or complete copies thereof shall be retained by anyone else on that side of the case at any other location than the offices of outside counsel except when being used by experts in connection with this case, unless otherwise authorized by stipulation of the parties or by order of the Court.

7. The requirements of paragraph 4 shall be satisfied with respect to each expert and court reporter and, in

connection with R&D Confidential Information, each attorney with counsel of record (and each stenographic and clerical employee assisting them), only upon their agreement in writing to be bound by the terms of this stipulation prior to their receipt of confidential information in the following form:

> "I hereby acknowledge that I [name], [position of employment] am about to receive confidential information supplied by [ ]. I certify my understanding that such information is to be provided to me pursuant to the terms and restrictions of the Court Order of [date] in [Civil Action No. and Name of Action] and that I have been given a copy of and have read said Order and agree to be bound by the terms thereof. I understand that such information and any copies I make of any documentary material containing confidential information or any notes or other records that may be made regarding any of such information shall not be disclosed to others, except 'qualified persons' in the same category of information as defined in the Order of [date]."

Counsel for each party shall maintain a list of the names of all persons to whom such confidential information is disclosed.

8. No less than thirty days in advance of giving an expert Confidential Information, the party proposing him shall submit his name to the other side. If the other party objects to the submission of such confidential information to such expert as inconsistent with the language or intent of paragraph 2 or on other grounds, it shall notify the proposing party of its objection and the grounds therefor and, if such dispute is not resolved on an informal basis, shall promptly submit such objection to the Court for ruling, and, in the event of such objection, the submission to such expert shall be withheld pending the ruling of the Court.

9. In the event that the receiving party disagrees with the designation by the producing party of any information as confidential information, then the parties will try first to resolve such dispute on an informal basis before presenting the dispute to the Court.

10. Neither party shall be obligated to challenge the propriety of a confidential designation, and a failure to do so shall not preclude a subsequent attack on the propriety of such designation.

11. A person not otherwise "qualified" under paragraph 2 may be examined as a witness at a deposition or at trial, and may be shown and may testify concerning any confidential information as follows:

(a) A present employee of a party may be examined, may be shown, and may testify concerning any confidential information of that party.

(b) A former employee of a party may be examined, may be shown, and may testify concerning any confidential information of that party which pertains to the period or periods of his employment and prior thereto.

(c) A present or former consultant to a party may be examined, may be shown, and may testify concerning any confidential information of that party which pertains to the subject matter of his consultation or to the subject matter of communications with that party.

(d) A non-party who has had any contact or relationship with SCM or Xerox may be examined, may be shown, and may testify:

(1) concerning any document containing confidential information which appears on its face to have been communicated between the non-party and SCM or Xerox; and

(2) concerning any confidential information of SCM or Xerox which documentary or testimonial evidence indicates was communicated between the non-party and SCM or Xerox.

Only qualified persons, the witness and his attorney may be present at any examination concerning confidential information.

12. Upon final termination of this action, each party shall assemble and return to the other all documentary material or memoranda embodying information designated confidential, including all copies of such memoranda or documentary material which may have been made but not including any notes or other attorney's work product that may have been placed thereon by counsel for the receiving party; provided, however, that the party to whom the documents are returned will keep one copy of each intact in the event of disputes over their use. Receipt of such documentary material by the party from whom it emanated shall be acknowledged in writing.

13. Nothing in this order will prejudice either party from seeking amendments hereto broadening or restricting the rights of access to and use of confidential information, or other modification.

14. This order may be amended without leave of Court by the agreement of counsel for the parties in the form of a stipulation that shall be filed in this case.

Dated at New Haven, Connecticut, this 16 day of September, 1975.

Jon O. Newman
United States District Judge

Xerox' Notice of Appeal

IN THE UNITED STATES DISTRICT COURT
DISTRICT OF CONNECTICUT

SCM CORPORATION,	:	
Plaintiff,	:	NOTICE OF APPEAL
-against-	:	Civ. No. 15,807
XEROX CORPORATION,	:	
Defendant.	:	

Notice is hereby given that Xerox Corporation ("Xerox"), the defendant in the above-entitled action, hereby appeals to the United States Court of Appeals for the Second Circuit from Pre-Trial Ruling No. 17, entered February 4, 1976, and Pre-Trial Ruling No. 19, entered on March 9, 1976 which reaffirmed the prior Order upon Xerox' motion for rehearing, reconsideration and/or clarification, insofar as such Pre-Trial Rulings reject Xerox' claims of privilege and require that (1) Xerox produce to the plaintiff documents concerning patent coverage of Xerox' machines (Pre-Trial Ruling No. 17, pp. 7-11; Pre-Trial Ruling No. 19, pp. 1-10) and (2) certain witnesses answer deposition questions pertaining to discussions of legal matters pertaining to the relationship between Xerox and Rank Organization (Pre-Trial Ruling No. 17, pp. 1-4, 15-16; Pre-Trial Ruling No. 19, pp. 10-12) and, in so doing, enunciate principles intended by the District Court as "guidance . . . to resolve any remaining disputes as to the availability of

the attorney-client privilege" (Pre-Trial Ruling No. 17, p. 20).

Dated: March 25, 1976

Respectfully submitted,

KAYE, SCHOLER, FIERMAN, HAYS & HANDLER
425 Park Avenue
New York, New York 10022

KENYON & KENYON REILLY CARR & CHAPIN
59 Maiden Lane
New York, New York 10038

CUMMINGS & LOCKWOOD
One Atlantic Street
Stamford, Connecticut 06904

JOHN J. MURPHY, ESQ.
Xerox Corporation
Stamford, Connecticut 06904

By s/
Attorneys for XEROX CORPORATION

SCM's Complaint

United States District Court

FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION, Plaintiff, *against* XEROX CORPORATION, Defendant.	Civil No.

COMPLAINT

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United States District Court
FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION, Plaintiff, *against* XEROX CORPORATION, Defendant.	Civil No.

COMPLAINT

Plaintiff SCM Corporation ("SCM"), by its attorneys, for its complaint against Xerox Corporation ("Xerox"), on knowledge as to matters pertaining to itself and on information and belief as to all other matters, alleges:

Jurisdiction, Venue and the Parties

1. This action concerns Xerox's unlawful monopolization in violation of Section 2 of the Sherman Act (15 U.S.C. § 2), of the skill and technology of plain paper office copying, and therefore the manufacture and marketing of plain paper office copiers. The monopoly was achieved and is being maintained by Xerox's exclusionary exploitation of the skill and technology of plain paper office copying, built on a foundation of basic patents, development and improvement patents and confidentially-maintained know-how accumulated by acquisition from others and through agreements with others.

2. This action also concerns the unlawfulness of those acts and practices by Xerox under:

(a) Section 1 of the Sherman Act (15 U.S.C. § 1), which condemns unreasonable restraints of trade or competition accomplished by contracts, agreements, conspiracies or combinations (whether or not Xerox has concurrently violated the anti-monopoly provisions of Section 2 of the Sherman Act); and

(b) Section 7 of the Clayton Act (15 U.S.C. § 18), which condemns acquisitions having the probable effect of substantially lessening competition or tending to create

a monopoly in any line of commerce (whether or not the acquisitions concurrently violate either or both of Sections 1 and 2 of the Sherman Act).

3. The acts and practices of Xerox alleged in this complaint have been committed in interstate commerce and in American foreign commerce.

4. This court has jurisdiction of this action to adjudicate SCM's claims for injunctive and damage relief under Sections 4 and 16 of the Clayton Act (15 U.S.C. §§ 15 and 26), that by reason of Xerox's violations of the antitrust laws as alleged in this complaint, SCM has been injured in its business or property and is continuing to suffer irreparable injury.

5. Venue is properly in this District under Section 12 of the Clayton Act (15 U.S.C. § 22), because Xerox is found and transacts business and its executive offices are located within this judicial district.

6. Both SCM and Xerox are corporations organized and existing under the laws of the State of New York. As more fully alleged in this complaint, Xerox is engaged in the manufacture and marketing of plain paper office copiers; and SCM is engaged in the manufacture and marketing of coated paper office copiers and has attempted and is attempting to develop and market a plain paper office copier.

The Ultimate Injurious Effects of Xerox's Monopolistic and Anticompetitive Acts and Practices

7. The ultimate injurious effects of Xerox's acts and practices alleged in this complaint have been and will be to:

(a) restrain competitive research and development by SCM and others with respect to the skill and technology of plain paper office copying;

(b) preserve the enormous lead which Xerox presently possesses in the skill and technology of plain paper office copying;

(c) exclude or restrain SCM and other potential competitors from the manufacture and marketing of plain paper office copiers;

(d) maintain Xerox's monopolistic position with respect to plain paper office copying; and

(e) enable Xerox to maintain that monopolistic control to extract mononoply profits.

8. Unless Xerox's acts and practices alleged in this complaint are declared to be against public policy and illegal, and unless they are enjoined and their effects dissipated and nullified during the pendency of this action and permanently:

(a) SCM and others who are attempting to compete with Xerox will continue to be irreparably injured because of Xerox's anticompetitive and monopolistic acts and practices;

(b) the hundreds of thousands of users of plain paper office copiers (including state and federal governmental agencies, business and professional organizations, and educational and charitable institutions) will be deprived of the benefits of competition and will continue to bear the burden of Xerox's anticompetitive and monopolistic acts and practices; and

(c) the public, including the millions of consumers throughout the United States who deal directly or indirectly with users of plain paper office copiers, will bear the burdens Xerox presently imposes on such users, and on SCM and other companies attempting to compete with Xerox.

SCM's First Claim: For Prospective Injunctive Relief Against Xerox's Monopolization and Anticompetitive Acts and Practices with Respect to Plain Paper Office Copying

Xerox's Unlawful Acquisition and Perpetuation of Control Over the Skill and Technology of Plain Paper Office Copying and, Therefore, Over the Manufacture and Marketing of Plain Paper Office Copiers

9. Plain paper office copiers are machines which conveniently and cleanly produce copies of documents on plain or bond paper by electrostatic means, and without the use of stencils, offset masters or other methods.

10. Generally, users of office copiers strongly prefer plain paper office copiers to coated paper office copiers (machines which make copies on specially coated and chemically treated paper) because of the better appearance, weight, useability and other advantageous features of plain or bond paper copies.

11. At all times in the decade from 1960 to 1970 (*i.e.*, from the time Xerox introduced its first plain paper office copier until IBM introduced its first plain paper office copier), Xerox possessed a 100% market share of the businesses of manufacturing and marketing plain paper office copiers in the United States. During that period in the United States it was the only manufacturer and the only marketer of plain paper office copiers. Xerox's share of these markets since IBM's entry in 1970 has been and continues to be more than 95%.

12. As publicly expressed by its chief executive officer, the only "real competition" Xerox has faced with respect to plain paper office copiers has been "from IBM". In 1972, as he stated, IBM's competitive impact on Xerox had been "very very small". In 1973, as he stated, that competitive impact continued to be "minimal". These and other statements by him and other present and former Xerox officials as alleged in this complaint, were made on Xerox's behalf, and such officials were authorized to make them on Xerox's behalf.

13. In the decade in which Xerox had no plain paper office copier competitor, its annual revenues from all of its plain paper office copying activities rose from less than $4 million in 1960 to about $1.3 billion in 1970. During that period its profits before taxes on such revenues rose from less than $1 million in 1960 to about $400 million in 1970.

14. Since 1970 (the year of IBM's entry), Xerox's annual revenues and profits from its plain paper office copying activities have continued to soar. Its revenues rose from about $1.3 billion in 1970 to more than $1.5 billion in 1971 and to more than $1.9 billion in 1972. Its profits before taxes rose from about $400 million in 1970 to about $450 million in 1971 to about $550 million in 1972.

15. Xerox's total profits before taxes from its plain paper office copying activities in the period 1960-1972 amounted to more than $2.7 billion, of which about $1.7 billion was earned in the period 1960-1970, and of which about $1 billion was earned during the two years of 1971 and 1972.

16. Xerox's monopoly with respect to plain paper office copiers and its extraordinary growth in revenues and profits is and has been achieved by its exclusionary exploitation of the skill and technology of plain paper office copying, which was built on a foundation of basic patents, development and improvement patents and confidentially maintained know-how accumulated by acquisition from others and through agreements with others.

A. Xerox's acquisitions of patents and technology from Battelle, Horizons, and others, and its control by 1961 of all the commercially known means to produce plain paper office copiers.

17. Plain paper office copying owes its origin to the four basic Carlson patents, embodying document copying by electrostatic means, issued between 1939 and 1944 and which expired between 1956 and 1961.

18. In 1944, Battelle Memorial Institute, Inc. or Battelle Development Corporation (both hereafter collectively referred to as "Battelle") entered into an agreement with Carlson to attempt commercialization of the four basic Carlson patents, and to engage in further research and development concerning copying of documents by electrostatic means.

19. The copying of documents by electrostatic means (whether producing plain paper or coated paper copies) is hereafter referred to as "xerography", the name given in 1948 by Battelle and since used by Xerox with respect to that means of opying documents. In 1948, Xerox was known as the Haloid Company. Its name was changed to Haloid Xerox, Inc. in 1958 and to Xerox Corporation in 1961.

20. In 1948, Xerox and Battelle entered into an agreement under which Xerox obtained a world-wide exclusive license with respect to the four basic Carlson patents,

other Battelle development and improvement United States patents, and their numerous foreign counterparts, all in the field of xerography. Under that agreement Xerox also secured the sole right to obtain exclusive world-wide licenses with respect to any patents thereafter issued to or acquired by Battelle involving xerography.

21. In 1956 Xerox and Battelle entered into another agreement. Under that agreement, Xerox acquired exclusive ownership and control of all of the skill and technology in the field of xerography which Battelle had developed by that time and which it has developed since that time.

22. Under that agreement, as of January 1, 1956 Xerox purchased from Battelle the four basic Carlson patents; and as of January 1, 1959 it purchased from Battelle 645 U.S. and foreign development and improvement patents and patent applications, all in the field of xerography.

23. The total consideration paid or conveyed to Battelle by Xerox under the 1956 agreement (over the ten-year payout period ending April 1, 1966 as specified in the agreement) for its acquisition of ownership of Battelle's issued patents, patent applications and other technology in the field of xerography, was approximately $69 million, as valued by Xerox in 1966.

24. In addition, under the 1956 agreement, Xerox was granted the option to acquire exclusive ownership of all patents and know-how in the field of xerography secured or developed by Battelle in every succeeding year in which Xerox paid Battelle a specified annual amount to support its research in that field. In each of the 17 years since 1956, Xerox has exercised that option by making the required annual payments to Battelle, and has thereby acquired exclusive ownership of all such Battelle patents and know-how.

25. After the execution of its 1956 agreement with Battelle, Xerox adopted and ever since has followed the policy, as publicly expressed by its chief executive officer in 1961, of "steadily strengthening [its] patent position."

26. During 1960, in implementing that policy, Xerox entered into agreements with Horizons, Inc. Horizons was

engaged in technological research in the field of xerography. Xerox entered into those agreements and became "associated with Horizons because", as publicly expressed by Xerox's chief executive officer in 1961, Horizons "did some work independently in xerography and had access to certain patents that we [Xerox] ultimately acquired."

27. Under those agreements with Horizons, Xerox purchased a number of United States and foreign patents and patent applications in the field of xerography.

28. Since 1960, Horizons has engaged in research in the field of xerography for Xerox's sole and exclusive benefit and use, in accordance with the long-term research obligations undertaken by it in the 1960 agreements with Xerox.

29. In carrying out its continuing policy of "strengthening its patent position," Xerox also purchased xerographic patents from others, including Walt Disney Productions and Bell & Howell.

30. In addition, it obtained access to other xerographic technology by entering into agreements with others, including RCA, IBM, GE, Kalle, Azoplate, Keuffel & Esser and Bell & Howell, in which Xerox extended restricted xerographic patent licenses, but obtained in exchange unrestricted grantback rights with respect to xerographic patents and technical information developed by such licensees. These agreements did not permit the licensees to use the patents in connection with plain paper office copying. Thus, these agreements continued Xerox's exclusion of others from practicing the skill and technology of plain paper office copying, while further enlarging Xerox's right to use newly developed xerographic patents and technical information in connection with its plain paper office copying activities.

31. By March of 1961 (in which year the last of the basic Carlson patents had expired), Xerox had acquired ownership of 998 U.S. and foreign development and improvement patents and patent applications in the field of xerography. By March of 1963, it had acquired ownership of 1293 such patents and patent applications. These patents and patent applications were, as Xerox stated in its prospectuses issued in April, 1961 and December, 1963, "of

material importance" to its xerographic business activities. Revenues from those activities had risen by 1963 to an annual amount in excess of $100 million from less than $4 million in 1960.

32. By virtue of its purchases and acquisitions in the field of xerography of the four basic Carlson patents, the many Battelle and Horizons patents and patent applications, other Battelle and Horizons technology, ownership or use of the patents and technology of others, and the exclusive right to new Battelle and Horizons technology and patents to be developed in the future, by 1961 Xerox had obtained exclusive world-wide control over the skill and technology with respect to plain paper office copying.

33. By 1961 and no later than 1963, Xerox had acquired, and recognized that it had acquired monopoly power which it would be in a position to exploit for the coming decades.

(a) In 1961, as its chief executive officer publicly stated, Xerox, with Battelle "and perhaps others," would be the ones helping to make the decisions about "the kind of markets there will be in 1970 and 1980 throughout the world in the field of visual communications."

(b) Also by 1961, the year in which the last of the four basic Carlson patents had expired, Xerox's continuing acquisition of hundreds of patent applications and newly-issued development and improvement patents had, as its chief executive officer publicly stated in that year, "thus *re-established* a powerful patent structure which affords [Xerox] protection almost equalling what it had during a period of basic patent coverage." (Emphasis his.)

(c) In 1963, as he publicly stated, Xerox had "re-created" a "powerful" patent structure which assured it "the right to go ahead with [its] own programs without much likelihood of being blocked", and which required others who desired to seek "this particular path" to "tread [this path] with us."

(d) Later that year and in early 1964, Xerox determined not to permit SCM to tread that path when, as more fully alleged below, it refused SCM's requests for a patent license with respect to plain paper office copiers.

34. At all times since 1960, Xerox's market position has been a consequence of its patents and technical know-how.

(a) As expressly admitted by Xerox in its Answer to the complaint against it by the Federal Trade Commission, a primary factor contributing to its present market position is "patents issued by the United States Government".

(b) The ability of Rank-Xerox (more fully described below) since 1962 to manufacture and sell xerographic copying equipment, as Xerox also admitted in that Answer, "has at all times been and continues to be attributable to the patents and technical know-how contributed by Xerox." Xerox's own ability to manufacture and sell such equipment has at all times been and continues to be attributable to the same factors.

B. Xerox's Battelle, Horizons and other acquisitions and agreements violate the antitrust laws.

35. Nothing contained in the Patent Act provides antitrust immunity to Xerox with respect to the methods employed by Xerox (acquisitions and exclusive and other agreements) to perfect and maintain an economic monopoly over the manufacture and marketing of plain paper office copiers.

36. Even if all the patents involved were validly issued, Xerox's aggregation by means of acquisitions and agreements of thousands of patents, patent applications and other technological assets to produce economic monopoly power over the manufacture and marketing of plain paper office copiers cannot avoid the prohibitions of:

(a) Sections 1 or 2 of the Sherman Act, condemning acquisition agreements and other agreements which have the effect of unreasonably restraining trade or competition or the effect of perfecting or maintaining a monoply in any part of commerce; or

(b) Section 7 of the Clayton Act, condemning asset acquisitions, including acquisitions of patents, which have the probable effect of substantially lessening competition or tending to create a monopoly in any line of commerce.

37. On the indisputable facts so far alleged, Xerox's acquisitions and agreements have resulted in the proscribed effects and constitute violations of each of those provisions of the antitrust laws.

C. Since 1961 Xerox has unlawfully maintained and enlarged its acquired monopoly power over the skill, technology, manufacture and marketing of plain paper office copiers.

38. By reason of its Battelle, Horizons and other acquisitions and agreements, Xerox had acquired by 1961 and no later than 1963 (as a matter of objective fact and by its own admissions), the monopolist's power to regiment the entire plain paper office copying business; to perpetuate its control over that entire business long after the basic patents had expired; systematically to funnel the fruits of invention of an entire technological field of endeavor into its own hands; to suppress and restrain any potential or actual competition in the manufacture and marketing of plain paper office copiers; and to perfect and enlarge an industrial monopoly with respect to such businesses.

39. Since 1961 Xerox has engaged in various acts and practices as alleged below which have had the effects of maintaining and increasing the size and the scope of its unlawful monopoly with respect to the skill, technology, manufacture and marketing of plain paper office copiers.

40. Whether or not those acts and practices were motivated, in whole or in part, to anticipate and meet increasing demands for plain paper office copiers, nevertheless, under Section 2 of the Sherman Act they had, and continue to have the unlawful effects of suppressing, foreclosing and restraining competition and of maintaining and increasing the size and scope of Xerox's monopoly.

41. Because the Battelle, Horizons and other acquisitions and agreements themselves erected a great barrier to the possibility of any competition, the effect of Xerox's acts and practices since 1961 has been to add additional barriers against competitive entry and to suppress, fore-

close and restrain competition with respect to the manufacture and marketing of plain paper office copiers and the development by others of the skill and technology necessary to engage in those businesses.

42. As more fully alleged below in paragraphs 43 to 142, the acts and practices of Xerox, which, since 1961, have had the monopolistic and anticompetitive effects previously described, include:

(a) its continuing accumulation and use of xerographic patents and technology developed by others, and its continuing realization of the benefits of exclusive and restrictive agreements with others entered into prior and subsequent to 1961;

(b) its constant expansion of research and development activities in the field of xerography carried on internally and by others pursuant to exclusive agreements, to the point where, as it stated in 1973, Xerox presently "continues to spend hundreds of millions of dollars for research and development on xerography";

(c) its requirement that its many thousands of research, scientific and technical personnel agree not to engage in any activities in the field of xerography for a period of two years after termination for any reason of their employment with Xerox;

(d) its exclusive use of its skill and technology (the foundation of which was acquired from Battelle, Horizons and others) to generate additional patents; to produce new and improved plain paper office copiers in anticipation of future market demands; and to produce a broad product line of plain paper office copiers;

(e) its exclusive use of that skill and technology as an underlying factor in its constant expansion of its manufacturing and marketing facilities in anticipation of increasing present and future market demands for plain paper office copiers;

(f) its unwillingness on any basis until late 1970 and early 1971 to offer or grant patent licenses to SCM or anyone else with respect to the manufacture of plain paper office copiers;

(g) its illusory offers, from an economic, competitive and technological standpoint, in late 1970 and 1971 to

SCM and others, of patent licenses on certain restricted terms and conditions with respect to three of the patents it had acquired from Battelle; and the like character of the patent license offers made recently by Xerox in 1973 to SCM and others with respect to those three patents, and a fourth which it had acquired from Horizons;

(h) its use in its own plain paper office copiers of the inventions claimed in only a small fraction of its more than 1700 United States patents; with the balance of those patents having the effect of "blocking patents" preventing others from "designing around" the few patents Xerox does use, thereby providing Xerox with a powerful patent thicket against xerographic innovation and development by anyone else;

(i) its refusal to identify the patents it claims to use in each of its plain paper office copiers despite its undertaking to do so as contained on legends affixed to those copiers ("Manufactured Under One or More U.S. Patents Owned or Controlled by Xerox Corporation—List Supplied on Request"), having the effect of preventing others from determining which aspects of Xerox's copiers are in the public domain, and which aspects Xerox claims are not in the public domain;

(j) its threats of patent infringement suits against potential competitors, including SCM, with respect to plain paper office copiers, and the manner in which those threats have been made and carried out; and

(k) in concert and combination with the Rank Organisation, Rank-Xerox, Fuji Photo Film and Fuji-Xerox, through anticompetitive agreements among them, and in restraint of American interstate and foreign commerce, its establishment and perpetuation of world-wide control over the skill and technology of plain paper office copying and a world-wide division of territories with respect to the manufacture and marketing of plain paper office copiers.

1. The Monopolistic and Anticompetitive Effects of Xerox's Research and Development Activities Relating to Plain Paper Office Copying.

43. From 1948 until 1956 (in which period Xerox entered into the Battelle license, acquisition and exclusive research

agreements) Xerox carried on relatively little xerographic research and development, and instead relied primarily on Battelle for those activities. Xerox's total expenditures for research and development in all fields of technological endeavor during the eight years of 1948 to 1955 (when it was engaged primarily in non-xerographic business activities) amounted to about $4.5 million or about an annual average of under $600,000.

44. During the five years from 1956 through 1960, although Xerox increased its expenditures for xerographic research and development, it continued to rely on Battelle and others. Excluding research sponsored and paid for by the federal government and others, but including payments to Battelle, Xerox's total expenditures for xerographic research and development rose from about $1 million in 1956 to about $3 million in 1960.

45. Since 1961, on the foundation of the patented and unpatented skill and technology acquired from Battelle, Horizons and others, and its exclusionary exploitation of the only known commercial means to manufacture plain paper office copiers, Xerox's annual expenditures for xerographic research and development carried on internally and in conjunction with others pursuant to agreements, have risen to enormous dollar proportions.

46. Total expenditures by Xerox for all of its research and development activities during the five-year period from 1961 to 1965 (which according to statements issued on its behalf were primarily related to xerography) continued to rise, reaching an annual amount in 1965 (the last year of the ten-year payout period under the Battelle 1956 agreement) of $38 million.

47. Since 1965 its annual expenditures for research and development in all fields (which have related primarily to plain paper office copiers and xerography) rose even more sharply. In 1966 such expenditures amounted to about $53 million; they steadily rose until in 1972 they reached about $132 million. During the 1966-1972 period such expenditures by Xerox totalled about $581 million.

48. In 1973, Xerox's present annual spending for xerographic research and development, as Xerox has stated in its Answer to the complaint of the Federal Trade Commission, amounts to "hundreds of millions of dollars."

49. Xerox's annual expenditures in 1972 and 1973 for research and development are greater than the total annual operating revenues produced by any other company, except one, from the manufacture and marketing of any type of office copier.

50. Xerox's ability to carry on and fund its research and development activities since 1961 is and has been a result of the great increases in its total operating revenues from its plain paper office copying businesses. Those research and development expenditures have never exceeded 10% of Xerox's consolidated operating revenues. Since 1966, Xerox's research and development expenditures have declined from about 7% to a present expenditure in 1972 and 1973 of less than 5.5% of its annual consolidated operating revenues.

51. The number of Xerox employees engaged in research and development activities has risen from 29 in 1950 to 270 in 1960 to a present number in excess of 4,000. In addition, since 1961 Xerox has had, and presently has, agreements with many others who are not its employees and who have been and are engaged for Xerox's sole benefit in research and development relating to plain paper office copying and xerography.

52. Xerox has required that each of its many thousands of research, scientific and technical personnel agree in writing as follows:

> "For the period of two years following termination of [my] employment [by Xerox Corporation] for any reason, I will not independently engage in xerography or, directly or indirectly, serve or advise in xerography or be employed in xerography by any individual, firm or corporation."

53. The effects of those exclusionary agreements have been and are to restrain the individuals involved from pursuing their livelihoods elsewhere in their field of ex-

perience; to prevent potential competitors from competing for their lawful services; to lock many of them into permanent employment with Xerox; to protect Xerox's control over the skill and technology of plain paper office copying and xerography by insuring that Xerox alone will obtain the use and benefit of their skills and talents; and thereby to further suppress and restrain competition with respect to the development of the skill and technology of plain paper office copying, and in turn the manufacture and marketing of plain paper office copiers.

54. The patents generated by Xerox's research and development activities, internally and in conjunction with others pursuant to agreement, as an addition to the patents acquired from Battelle, Horizons and others, have resulted in Xerox's ownership or control of more than 1700 United States patents, of which presently about 1200 are unexpired, and its acquisition of ownership or control of many thousands of foreign patents relating to xerography. In addition, Xerox owns or controls more than 200 pending applications for United States patents and numerous pending applications for foreign patents in the field of xerography.

55. Xerox has thus continued and is continuing to implement its policies, publicly expressed in 1961, of steadily strengthening its patent position, of reestablishing patent coverage to the exclusion of others and of securing the sole use of technological advances in xerography which have been made as the result of its own research and that of others.

56. The vast majority of the issued xerographic patents owned or controlled by Xerox are not, and have not been, used by Xerox in the manufacture of its plain paper office copiers, and have the effect of "blocking patents" restraining entry into plain paper office copying by others. When use or non-use of a patent is referred to in this complaint, it means the use or non-use of the invention claimed and covered in such patent.

57. Another effect of Xerox's xerographic research and other patent activities since 1961, as an addition to the "powerful patent structure" it had acquired by that time, has been to increase the difficulty and expense to any potential competitor of designing around Xerox's increasing

number of patents. Another effect has been to make it increasingly difficult for anyone to undertake the expense, effort and risk of challenging the validity of any of those patents in protracted patent infringement litigation, which Xerox promised SCM and others would ensue if they attempted to manufacture plain paper office copiers.

58. A further effect of Xerox's perpetuation since 1961 of its acquired monopoly power over the skill and technology of plain paper office copying has been Xerox's ability to determine the pace and direction of scientific inquiry and endeavor in the field of xerography, in large part free from the influence of competitive efforts of others.

59. Still another effect since 1961 of Xerox's research and other patent activities has been to increase further Xerox's present and future technological lead over any potential competitor, a technological lead which it initially possessed by 1961 as a result of its Battelle, Horizons and other acquisitions and agreements. The even greater technological lead which Xerox now possesses has the effect of suppressing, foreclosing and restraining competition because any potential competitor must consider the risk that by the time its product reaches the marketplace that product might be competitively obsolete.

60. Xerox recognizes that clear effect.

(a) In 1971, as stated in that year by its chief executive officer, Xerox's research and development was not concentrated on the office copiers of the present, but on those new or improved office copiers Xerox would be manufacturing and marketing five years hence.

(b) Presently, as stated by Xerox's President on May 24, 1973, Xerox expects that within the next two years alone it "will be announcing or introducing as many as 12 to 15 new products", several of which are "major . . . additional second-generation xerographic devices."

2. The Monopolistic and Anticompetitive Effects of Xerox's Expansion of its Product Line and of its Manufacturing, Service and Marketing Facilities and of its Personnel.

61. Based on the patented and unpatented skill and technology acquired from Battelle, Horizons and others and its exclusionary exploitation of the only known commercial

means to manufacture plain paper office copiers and, on that foundation its research and development activities, Xerox has greatly expanded its product line of plain paper office copiers.

62. Xerox presently manufactures and markets a broad product line of plain paper office copiers for medium and high monthly usage. According to Xerox, medium usage involves from 3000 to 20,000 copies per month, and high usage involves in excess of 20,000 copies per month. Xerox's broad product line includes plain paper office copiers which operate at low, medium and high copying speeds ranging from 330 copies per hour to 3600 copies per hour.

63. In 1960, Xerox introduced its first plain paper office copier, the Model 914. It is a console model machine with a speed of 420 copies per hour. It copies documents and books without requiring the original to be fed into the machine. (Such copiers are termed "book copiers.") After its introduction in 1960, the 914 gained immediate and widespread user acceptance. Xerox presently continues to market the 914, and with its now relatively low copying speed, it is operated for medium monthly usage.

64. In late 1963, Xerox introduced its Model 813, a table top machine which was, as Xerox stated, "designed for lower volume applications and as a supplement to existing 914 Copier installations." It makes copies at the rate of 330 per hour. It cannot make copies from books because the document to be copied must be fed into the machine. As did the 914, the 813 gained immediate and widespread user acceptance after its introduction. Xerox presently continues to market the 813 model.

65. Xerox's marketing of the 914 and the 813 was responsible for most of Xerox's plain paper office copier revenues during the period between 1960 and 1965.

66. All or most of the patents used in manufacturing Xerox's Models 914 and 813 were obtained by Xerox from Battelle, Horizons or others. One of the patents acquired from Battelle (the Bixby '906 relating to the selenium photoconductor) is a key patent used by Xerox in all of its plain paper office copier models.

67. SCM does not know (for the reasons alleged in paragraphs 121-123 below), the full extent to which Xerox uses other patents obtained from Battelle, Horizons or others in those of its models introduced since 1965. For the same reasons, SCM does not know the extent to which Xerox uses patents generated by its own internal research and development in those of its models introduced since 1965.

68. In 1966 Xerox introduced its Model 720 and in 1972 its Model 1000, improved versions of the 914. In 1966, it introduced its Model 660, an improved version of the 813. These five models, collectively called "first generation copiers" by Xerox, are all still marketed by Xerox today.

69. Since 1965 Xerox has introduced and marketed other types of plain paper office copiers (some of which it has called "copier-duplicators," and others of which it has called "second generation copiers"), possessing increased capabilities.

70. In 1965, Xerox introduced its Model 2400, a larger machine than those in the 914 and 813 families, and with a speed of 2400 copies per hour. Subsequently improved versions of the 2400 were introduced by Xerox and are its Models 3600-I and 3600-III, which have speeds of 3600 copies per hour, and the Model 7000, which has the same speed and which can make copies at full size or at several selected reduced sizes. These are the models Xerox has called "copier-duplicators." They were designed for high monthly usage and have become Xerox's biggest revenue producers.

71. In 1971, Xerox began the introduction of what it terms "second generation copiers," that is, copiers with advanced features not found on other Xerox copiers, and which were the consequence of research and development initiated several years before. Xerox's "second generation copiers," of which so far there are three (the Models 4000, 3100 and 6500) are the result of Xerox's policy, as its chief executive officer boasted in 1971, to concentrate its xerographic research and development activities at any particular time on the office copiers of five years hence.

72. In 1971, Xerox began marketing its Model 4000, which it has described as an advanced book copier with

a speed of 2700 copies per hour. Its features include automatic copying on both sides of the paper and pushbutton selection of either of two sizes of copy paper.

73. In April, 1973, Xerox announced the introduction of its Model 3100, a mobile plain paper office copier with a copying speed of 1200 per hour, designed for medium monthly usage.

74. The Model 3100 "is expected", as a Xerox vice-president has publicly stated, "to become one of our biggest revenue producers throughout" the decade of the 1970's. Xerox anticipates that for medium volume usage, the 3100 ultimately will replace its 660, 720 and 914 units, and some of its 1000 units.

75. In May, 1973, Xerox announced the introduction of the third of its "second generation copiers," its Model 6500. The 6500 took five years to develop, at a cost to Xerox of about $40 million. The 6500 is a color copier, employing electrostatic means and able to make copies in seven colors.

76. The achievement by Xerox of its present broad product line of plain paper office copiers, and its expanding technological lead, was the result of the patents and technology it initially acquired from Battelle, Horizons and others, and, with that foundation, its exclusionary exploitation of the skill and technology involved to produce additional patents and technology.

77. As Xerox itself stated in 1973, the ability to manufacture and sell its xerographic equipment has at all times been and continues to be attributable to its patents and technical know-how; and that a primary factor to which it owes its present market position is "patents issued by the United States Government."

78. To the limited extent since 1970 that IBM and a few others have attempted entry into the businesses of manufacturing and marketing plain paper office copiers, no one has a product line in any way comparable or competitive to the broad product line Xerox presently possesses and is continuing to expand.

79. Xerox's unmatched broad product line and its continuing ability and expressions of intent to expand that line, create greater barriers to entry and increased difficulties in competing; and therefore have the effect of maintaining and enlarging Xerox's monopoly and restraining competition with respect to the manufacture and marketing of plain paper office copiers.

80. Since 1961, in accordance with the policy announced by its chief executive officer in that year, Xerox has consistently anticipated and met the increasing demands for plain paper office copiers by substantially increasing its manufacturing, marketing, service and other facilities, and by substantially increasing the number of its personnel engaged in those activities. The extent of that activity was premised on the fact that for the decade until 1970 it was the sole manufacturer of plain paper office copiers and that it remained the sole manufacturer because of its exclusive control of the skill and technology involved.

81. Xerox has always marketed its plain paper office copiers directly to users through its own field sales and service organization.

(a) Between 1961 and 1970 that organization increased from 25 major sales offices to 145 major sales offices in principal cities throughout the United States and Canada, and with resident representation in many additional cities.

(b) Between 1961 and 1970 its field staff increased from approximately 700 to approximately 10,000 salesmen, servicemen and other technical personnel.

(c) Since 1970 the number of Xerox's major sales offices and sales, service and technical personnel has increased even further.

82. As a result of Xerox's acquisition and accumulation of patents and technical know-how in the field of xerography, of its exclusionary exploitation of that skill and technology, and of widespread customer acceptance of its plain paper office copier products, since 1961 Xerox has greatly expanded its product line, its manufacturing, marketing and service facilities and staffs and the volume of its plain paper office copier businesses.

83. Xerox has thereby become a multi-billion dollar business organization having the advantages of new manufacturing and marketing facilities, of highly developed customer connections, and of skilled and experienced personnel. Those advantages must be faced by any actual or potential competitor, and are themselves great barriers to competition and competitive entry.

84. In Xerox's present hands, those advantages have the unlawful effects of restraining actual and potential competition, and of maintaining and enlarging Xerox's monopolistic position. Whether or not Xerox's acts in expanding its product line, facilities, staffs and business were motivated in whole or in part to satisfy increasing market demands for plain paper office copiers, nevertheless those acts are unlawful because they have produced those monopolistic and anticompetitive effects.

3. Xerox's Unwillingness Between 1961 and 1970 to Grant Patent Licenses With Respect to Plain Paper Office Copying and Its Threats and Policy of Patent Enforcement.

85. In 1963 and 1964, SCM requested orally and in writing that Xerox grant patent licenses to SCM relating to the manufacture of plain paper office copiers. Those requests were communicated on SCM's behalf by its Patent Administrator to Xerox's Chairman of the Board, and to the head of Xerox's Patent Department. SCM also requested patent licenses on Xerox's liquid toner patents which Xerox acquired from Horizons.

86. All of SCM's requests were refused.

87. During oral conversations with SCM's Patent Administrator which occurred during the 1962-1964 period (which also related to patent aspects of SCM's manufacture of its first model of a coated paper office copier), the head of Xerox's Patent Department stated that Xerox had adopted a policy against offering any patent licenses with respect to plain paper office copiers which would allow competition with Xerox's plain paper office copier. He also stated that any attempt to design around any Xerox patents should be attempted with the utmost care since some very important patent claims appear "in some

strange places" among the approximately 250 issued patents which he said Xerox owned at that time.

88. During those same conversations, an assistant to the head of Xerox's Patent Department stated in his superior's presence to SCM's Patent Administrator, that Xerox was unwilling to advise SCM how and why SCM's coated paper office copier violated any of Xerox's patents. He explained that such information might enable SCM to "design around" any patent claims which Xerox might identify as allegedly being infringed.

89. In accordance with its policy as thus described to SCM, in the ten years between 1961 and 1970 Xerox did not license, and was unwilling to consider granting any licenses to any potential plain paper office copier competitor with respect to any of its patents insofar as they related to the manufacture of plain paper office copiers.

90. As more fully alleged in paragraph 141, in 1960 Xerox required and coerced Rank-Xerox and Savin to cancel their agreement under which Rank-Xerox had extended in its territory a patent license to Savin with respect to plain paper office copying.

91. Also, in accordance with its policies to prevent others from obtaining access to patented xerographic technology for plain paper office copying and to obtain for Xerox the use of such technology as may have been patented by others, since 1961 Xerox has entered into or maintained in force various restrictive patent license agreements with many companies under which in all instances the licensees were not extended a license permitting the use of the patents in plain paper office copying.

(a) Under some of those agreements a number of companies, including SCM, were granted the right on a royalty basis to use xerography in the manufacture and marketing of coated paper or coated paper office copiers.

(b) Others of those agreements (with companies including RCA, IBM, GE, Kalle, Azoplate, Keuffel & Esser and Bell & Howell) contained grantback provisions which have given Xerox the unrestricted right to use xerographic

patents and technical information developed by the licensees involved.

92. By words and deeds, since 1961 Xerox has threatened patent infringement litigation against others who might manufacture a plain paper office copier. The words included those expressed to SCM; and those expressed by Xerox's chief executive officer in 1963 when he stated that, in the light of Xerox's patent position, anyone who desired to seek the path of manufacturing plain paper office copiers had to tread that path with Xerox. Xerox's words that it would vigorously enforce its strong patent position against any potential manufacturer of plain paper office copiers were supported since 1961 by the execution of its policy of "strengthening its patent position" by amassing and securing many hundreds of additional patents, most of which are not used by Xerox in its own copiers but which have the effect of blocking others.

93. Xerox's direct and implied threats of vigorous patent enforcement with respect to plain paper office copiers have had a chilling effect in restraining potential competition. Those threats were not a lawful exercise of patent rights, but an element in Xerox's overall monopolization of the skill and technology of plain paper office copying, and therefore, its monopolization of the manufacture and marketing of plain paper office copiers. Those threats were an additional vehicle by which Xerox perpetuated and enlarged its monopoly, and warned every potential competitor that it would be smothered with litigation if it attempted to develop and market any plain paper office copier.

94. In 1970 when IBM introduced its first plain paper office copier, and in 1972 when Litton introduced its plain paper office copier, Xerox commenced and has since maintained burdensome patent infringement actions against them.

95. On April 16, 1970, IBM announced and introduced its IBM Copier I. That plain paper office copier has a speed of 600 copies per hour and was designed primarily for medium monthly usage and to compete with Xerox's "first generation" copiers.

96. On the same day, Xerox commenced a federal action against IBM alleging that the IBM Copier I infringed twenty-two of Xerox's United States patents. Shortly thereafter, Xerox amended its complaint to reduce the number of allegedly infringed patents to eleven.

97. The continuing direct importance of the patents acquired under the Battelle agreement fourteen years before, is shown in that action. Seven of the twenty-two, and ~~four~~ three of the eleven of those allegedly infringed patents, or the patent applications on which they issued, had been purchased by Xerox from Battelle under the terms of their 1956 agreement.

98. The Xerox-IBM patent litigation continues to be pending and has been broadened by IBM to include an attack by it against the validity and enforceability of the patents involved. The litigation has already involved very substantial efforts by the personnel and attorneys for each of the parties and expense in the millions of dollars. Although the Court in which that litigation is pending has directed completion of pretrial discovery proceedings with the greatest possible expedition, it is likely that final determination of that action after trial and appeal is many years distant.

99. While IBM possesses the resources to contest Xerox in patent litigation of that type over a protracted time and to make the enormous investment and commitment to challenge Xerox in the marketplace during the pendency of that litigation with its attendant risks, few others have been or are able to follow the same course of action.

100. In April, 1972, Xerox commenced a patent infringement action against Litton Industries regarding Litton's plain paper office copier, the Royal Bond Copier. Xerox claimed that Litton infringed three of its patents, two of which were purchased by Xerox from Battelle. Also, two of those three patents are not used by Xerox in any of its plain paper office copiers.

101. Xerox's threats of patent litigation, and its fulfillment of those threats as constituting additional bar-

riers against competitive entry is also shown (a) by its pending patent litigation against IBM in Canada and by Rank-Xerox's pending patent litigation in the United Kingdom and France against companies in the Gestetner group, all concerning plain paper office copying and all more fully described in paragraphs 139 and 140 below; and (b) Xerox's pending patent litigation against Dennison Manufacturing Co., Nashua Corporation and Saxon Business Products and by its previous patent actions in the early sixties against SCM and Addressograph-Multigraph Corp., all concerning coated paper office copying by xerographic means.

102. Since SCM is presently attempting the development and marketing of a plain paper office copier, it can reasonably anticipate that any attempt to manufacture or market such a copier will be met with burdensome and protracted patent litigation with Xerox. Such potential litigation constitutes another barrier against the ability to make and maintain competitive entry against Xerox.

4. The Illusory Nature of Xerox's Offers in 1970 to Grant Licenses as to Three, and in 1973 as to Four of Its Patents Insofar as They Relate to Plain Paper Office Copying.

103. In late 1969 the Federal Trade Commission commenced an investigation of Xerox concerning its patent, marketing and other activities relating to plain paper office copying and xerography.

104. In 1970, Xerox announced an offer to grant patent licenses with respect to three of its patents relating to plain paper office copying and xerography.

105. The announcement created only the illusion of Xerox's willingness to permit others to gain access to the skill and technology of plain paper office copying in order to compete. In fact, from a technological, economic and competitive standpoint, the grant of such licenses would not produce that effect.

106. In early 1971, Xerox offered to SCM (and told SCM it was offering to others), a "standard" license agreement with respect to each of three U.S. patents: the

Walkup '814, issued in 1958 (expiring in 1975) on an application filed in 1948; the Bixby '906, issued in 1961 (expiring in 1978) on an application filed in 1953; and the Middleton-Reynold's '006, issued in 1964 (expiring in 1981) on an application filed in 1952.

107. Those three patents, or the patent applications on which they were issued, were purchased by Xerox from Battelle under the 1956 agreement. They embody old technology, as to which Xerox possessed exclusive control for about twenty years until first offered by it for license in 1970 and 1971.

108. Xerox has not used either the Middleton-Reynolds '006 patent or the Walkup '814 patent in any of its plain paper office copiers. It has used the Bixby '906 as alleged in paragraph 66.

109. The "standard" license agreement tendered by Xerox to SCM in 1971 required a royalty rate of 6% per patent on sales of plain paper office copiers having a copying speed of up to 750 copies per hour (which is slower than the copying speed of Xerox's Models 1000, 2400, 3100, 3600-I, 3600-III, 4000 and 7000) and 12% per patent on sales of office copiers having higher speeds.

110. Apart from the 1973 color copier model 6500, the copying speed of 750 copies per hour is slower than the speed of every one of the six new models introduced and marketed by Xerox since 1967, and which presently are, in the aggregate, its biggest revenue producers.

111. If SCM, or anyone else to whom the licenses were offered, accepted and used one, two or three of the tendered license agreements, it would be required to pay a royalty rate of 6% or 12% or 18% on sales of copiers having a speed of up to 750 copies per hour, and 12% or 24% or 36% on sales of copiers having higher speeds.

112. SCM did not accept, and no one else accepted any of the licenses offered by Xerox.

(a) Acceptance of Xerox's offers would not have allowed the manufacture of plain paper office copiers free

from the threat of onerous patent litigation based on the many other patents in Xerox's patent armory.

(b) Even if the use of the old technology embodied in the three patents for which licenses were offered would permit the manufacture of a plain paper office copier, a licensee would face the probability that such a copier would be competitively obsolete by the time it reached the marketplace in view of the technological lead which Xerox then possessed and was expanding; the improved and advanced models which Xerox is presently marketing; and the new models which Xerox has promised in the near future.

(c) The unreasonably high royalty rates for each of the patents or the patents collectively, and the anticompetitive royalty burden for copiers with a speed in excess of 750 copies, constituted further anticompetitive restraints.

113. While it is essential that Xerox grant licenses (whether royalty-free or on reasonable royalty terms) to SCM and others with respect to its more than 1200 unexpired United States patents and thousands of foreign patents, even more is required to create full and fair competitive conditions in the light of Xerox's existing technological lead (to which its chief executive officer referred in 1971) and the hundreds of millions of dollars which Xerox itself says it is presently spending for research and development relating to xerography. Access by competitors to Xerox's ongoing research and development, and licensing with respect to patents issued on presently pending applications, is also necessary until such time as Xerox's wrongfully acquired technological lead has been eliminated.

114. Even if the licensing of the three patents offered to SCM in 1971 would have permitted the manufacture and marketing of a plain paper office copier, it came at least eight years too late from a competitive or economic standpoint.

115. By reason of the facts and circumstances alleged in this complaint concerning Xerox's exclusionary exploitation of the skill and technology involved in plain paper office copying and its attempts to preserve that position, its of-

fering in 1971 to SCM and others of patent licenses with respect to three of its relatively soon-to-expire patents was only a gesture creating an illusion of willingness to share its plain paper office copying technology.

116. In December, 1972, the Federal Trade Commission served notice of a proposed complaint against Xerox, and in January, 1973 served such a complaint against Xerox. The Commission charged that Xerox has violated Section 5 of the Federal Trade Commission Act by reason of its patent, marketing and other activities in the field of xerography.

117. In April, 1973, Xerox offered to SCM and others a new license with respect to the Walkup '814, Bixby '906 and Middleton-Reynolds '006 patents (the same patents which were the subject matter of the license offers made in 1971) for use in the manufacture of plain paper office copiers. The terms offered were less onerous than those offered in 1970.

118. Xerox offered to license those patents (for the relatively few years remaining on their unexpire terms) at a royalty rate of 3% per patent on sales of plain paper office copiers and with no limitation or additional royalty rate regarding copying speed. Xerox also offered SCM and others a license with respect to the Mayer '884 patent for use in connection with the manufacture of plain paper office copiers at a royalty rate of 1% on sales. The underlying application was acquired from Horizons. The patent was issued in 1972, on an application filed nineteen years earlier in 1953.

119. In addition, Xerox offered SCM and others the four patents as a single package at an unspecified royalty rate "less than" the cumulative rate of 10%.

120. Xerox's new licensing policy has several of the same infirmities as its previous license offers, including lack of protection against the many other patents in Xerox's armory, and the potential market obsolescence of any use of the offered patents which embody old technology. Although the royalty rate has been reduced (but remains unreasonable and burdensome), and although the double royalty rate with respect to plain paper office cop-

iers having a speed in excess of 750 copies per hour has been eliminated, the new offer comes with two years added to Xerox's technological lead, and with two years less to run before those patents reach the end of their 17-year terms.

121. In response to Xerox's 1973 written offer to license four patents and its expressed willingness to supply further information concerning the license offer, SCM in April, 1973 wrote to Xerox to obtain further information, including inquiry as to which of its patents Xerox uses in each of its plain paper office copiers. That letter referred to the legend placed by Xerox on its plain paper office copiers. On that legend, Xerox offered, "on request," to supply a list of the patents owned or controlled by Xerox which are used in the copier, as alleged in subparagraph 42(i) above.

122. In response to SCM's letter, Xerox refused to identify any of the patents it claims to use in any of its models, claiming that its alleged policy of supplying such information had been discontinued some time ago.

123. The effect of Xerox's refusal to supply that information is to burden the right of others to determine which aspects of its copiers Xerox claims are not in the public domain and which aspects Xerox itself concedes are in the public domain.

124. Xerox's new licensing policy with respect to the four patents involved is merely a second instance of attempting to create an illusion of willingness to permit others to gain access to its skill and technology.

5. Xerox's Perpetuation of its World-Wide Control Over the Skill, Technology, Manufacture and Marketing of Plain Paper Office Copiers by Agreements with Third Parties in Unlawful Restraint and Monopolization of American Interstate and Foreign Commerce.

125. Since 1956, by agreements and in concert and combination with third parties, Xerox has maintained and perpetuated world-wide control over the skill and technology involved in the manufacture of plain paper office copiers.

The foundation of such world-wide control was the United States and foreign patents and the technical know-how acquired by Xerox from Battelle, Horizons and others. As a result, Xerox, in concert and combination with third parties, has maintained a world-wide monopoly over the manufacture and marketing of plain paper office copiers throughout the world, from which, apart from its domestic profits, it has realized hundreds of millions of dollars of additional profits.

126. Xerox's world-wide monopoly in concert and combination with others over the skill and technology with respect to plain paper office copiers has suppressed and restrained American interstate and foreign trade and commerce. Potential American competitors including SCM (which, in other countries, markets coated paper office copiers manufactured in the United States), have been restrained from manufacturing plain paper office copiers in the United States for export and marketing in foreign countries. Potential American competitors have also been restrained from making investments for the manufacture and marketing of plain paper office copiers in foreign countries.

127. In 1956, Xerox and The Rank Organisation, Limited ("Rank, Ltd."), a United Kingdom corporation, by agreement organized Rank-Xerox, Limited, another United Kingdom corporation. Rank-Xerox was organized initially to develop xerography commercially in all countries of the world except the United States and Canada. Fifty per cent of Rank-Xerox's voting securities were issued to Xerox in return for:

(a) an assignment or exclusive license by Xerox to Rank-Xerox of its xerographic patents and patent applications issued and filed outside of the United States and Canada;

(b) an agreement by Xerox to assign or exclusively license to Rank-Xerox such xerographic patents and patent applications issued or filed outside the United States and Canada as Xerox might subsequently obtain or acquire;

(c) other technical information and know-how contributed by Xerox to Rank-Xerox relating to xerography; and

(d) cash capital contributions to Rank-Xerox by Xerox.

128. The other 50% of Rank-Xerox's voting securities were issued to Rank, Ltd., and its affiliates, in return for cash capital contributions by them.

129. Xerox and Rank, Ltd. each owned 50% of the voting securities of Rank-Xerox from 1956 until December 1969. At that latter time, Xerox and Rank, Ltd. entered into an agreement under which Xerox acquired from Rank an additional 1% of Rank-Xerox's voting securities. Xerox thereby acquired voting control of Rank-Xerox.

130. Fuji-Xerox, Ltd. is a Japanese corporation and was organized in 1960 by Rank-Xerox and Fuji Photo Film Co., Ltd. of Japan. Since 1960, Fuji-Xerox has developed xerographic United States and foreign patents and other technical information which it has licensed to Xerox and Rank-Xerox under agreements with them, and as more fully alleged below, in accordance with their world-wide division of territories.

131. Pursuant to the agreements made in 1956 and since that time among Xerox, Rank, Ltd., Rank-Xerox, Fuji Photo and Fuji-Xerox, those five separate corporate entities have by concert and agreement, maintained and perpetuated exclusive control over the skill and technology of plain paper office copiers throughout the world through their ownership and control of patent rights, and the assignment of those rights among themselves.

132. Between 1956 and 1965, most of the foreign patents involved, or the applications on which patents subsequently issued, were acquired by Xerox from Battelle, Horizons and others, and in turn assigned or licensed by Xerox to Rank-Xerox and ultimately to Fuji-Xerox.

133. Pursuant to the various agreements among the parties concerned, since 1960 Rank-Xerox, and since 1962 Fuji-Xerox have manufactured and marketed plain paper office copiers in various countries of the world as allocated to them under patent rights in those countries.

134. In 1972, Rank-Xerox had revenues from its xerographic business activities totalling about 268 million pounds ($700 million), on which it had pre-tax profits of about 106 million pounds ($275 million). Fuji-Xerox's revenues and profits from its xerographic business activities are not presently known to SCM.

135. Since 1956, the world has been divided among Xerox, Rank-Xerox and Fuji-Xerox with respect to patented and unpatented skill and technology of plain paper office copiers owned or controlled by them and thereby the manufacture and marketing of such copiers.

(a) Since 1956, at the time of its agreement with Battelle, Xerox has retained exclusive ownership of all its United States and Canadian patents and patent applications.

(b) Since 1956, by assignment or exclusive license from Xerox, Rank-Xerox has possessed the sole and exclusive rights to Xerox's patents and patent applications issued and filed in the various countries in Europe and Africa; from 1956 to 1964 it possessed such rights in Central America and South America; and from 1956 to 1960 it possessed such rights in Asia and the Western Pacific.

(c) In 1964, Xerox reacquired from Rank-Xerox the sole and exclusive rights to Xerox's patents and patent applications issued and filed in Central America and South America by trading those rights for monetary and other consideration conveyed to Rank-Xerox.

(d) Since 1960, by assignment or exclusive license from Xerox to Rank-Xerox and in turn by assignment or exclusive license from Rank-Xerox to it, and by ownership of its own patents, Fuji-Xerox has possessed the sole and exclusive rights to Xerox's and its own patents and patent applications issued and filed in various countries throughout Asia and the Western Pacific.

136. The result of the territorial division of the world with respect to the use of patents and patent applications has been to create and perpetuate for each of the companies involved a monopoly over the manufacture and marketing of plain paper office copiers with respect to each of the countries in which it has owned or controlled

the patents and patent applications issued and filed in that country. Xerox, Rank-Xerox and Fuji-Xerox have each restricted its marketing of plain paper office copiers to its assigned territories.

137. Rank-Xerox's ability to manufacture and sell xerographic equipment, as Xerox asserted in 1973, "has at all times been and continues to be attributable to the patents and technological know-how contributed by Xerox."

138. Xerox's contribution of patents and technical know-how to Rank-Xerox and to Fuji-Xerox constituted American foreign commerce. That contribution has constituted the export by an American corporation of American-owned technological assets to foreign corporations under various agreements entered into since 1956.

139. As part of Xerox's monopolization of the skill and technology of plain paper office copying throughout the world, and as part of its program of threatening and maintaining patent litigation more fully alleged in paragraphs 92-100 above, Xerox has instituted, and there is pending, patent infringement litigation against IBM in Canada with respect to IBM's plain paper copiers.

140. As part of that world-wide monopolization of the skill and technology of plain paper office copying, and as part of that program concerning patent litigation, in concert and combination with Xerox, Rank-Xerox in 1973 instituted patent infringement proceedings in the United Kingdom and in France against companies in the Gestetner group concerning the Gestetner FB 12 plain paper office copier.

141. As part of that world-wide monopolization of the skill and technology of plain paper office copying, as a condition for granting Savin Business Machines Corp. a United States patent license with respect to coated paper office copying by xerographic means, Xerox required Savin and Rank-Xerox to cancel a patent license which Rank-Xerox had previously granted in its territory to Savin with respect to plain paper office copying.

142. Xerox has created and is maintaining by agreement and in combination and concert with others a world-wide

cartelization of the skill and technology involved in plain paper office copying, and thereby a world-wide cartelization of the manufacture and marketing of plain paper office copiers. Such world-wide cartelization has been and is being nurtured by Xerox as a deliberate policy, for its own profit, to exclude and having the effect of excluding competition with respect to plain paper office copiers throughout the world in restraint of American interstate and foreign commerce.

Relief and Proceedings With Respect to SCM's First Claim.

143. To the extent appropriate under FRCP Rule 56, or after trial, the Court should declare that Xerox's acts and practices alleged in this First Claim are illegal and against public policy and that

(a) they violate Section 2 of the Sherman Act independently of any other violation of law;

(b) to the extent they involve any contracts, agreements, combinations or concerted action with any third parties, or any effects thereof, they violate Section 1 of the Sherman Act independently of any other violation of law; and

(c) to the extent they involve any agreements relating to acquisitions of patents, patent applications, technical information, other assets, or stock, or any effects thereof, they constitute a violation of Section 7 of the Clayton Act independently of any other violation of law.

144. After adjudication of Xerox's violations of law, and after consideration of the present and prospective effects of such violations, the Court should fashion and grant the necessary and appropriate remedial injunctive relief so that:

(a) competition with respect to the skill, technology, manufacture and marketing of plain paper office copiers in American interstate and foreign commerce will be pried open and established;

(b) SCM and others will be afforded a full and fair opportunity to compete at the research, manufacturing and marketing levels;

(c) users of plain paper office copiers and the public will have the benefits of full and fair competition at each of those levels; and

(d) the present and prospective effects of Xerox's monopolistic position and anticompetitive acts and practices will be effectively and permanently eliminated.

145. The remedial injunctive relief required to achieve those objectives must necessarily be fashioned and granted in light of the facts as they exist after the adjudication of Xerox's violations of law. Because of the continuing and prospective irreparable injury to SCM, other potential and actual competitors, users, and the public and because of the enormous potential growth in demand which lies ahead for plain paper office copying (which Xerox itself has forecast), pretrial proceedings; summary or trial adjudication of Xerox's violations of law and SCM's prayer for preliminary injunctive relief; and then trial adjudication of the permanent relief to be granted with respect to this First Claim, should be expedited to the maximum extent possible.

A. *Permanent Relief*

146. At the time of the adjudication of relief in this action, assuming the present and prospective effects alleged in this complaint continue to exist, permanent injunctive relief should be granted along the lines set forth in paragraphs 147 to 157, 159 and the second sentence of paragraph 160.

147. First, Xerox should be required to divest itself of all of its research, patents, technical and manufacturing facilities and assets in the field of xerography. It should be required to create two or more wholly separate and independent companies, properly staffed and financed, to own and operate those facilities and assets as they may be appropriately divided. Thereafter, such new research and manufacturing companies (collectively referred to as the "New Manufacturing Companies") would carry on those activities in the field of xerography.

148. The creation of two or more such new manufacturing companies is necessary since the monolithic and monopolistic character at the research and manufacturing

levels, and the effects of Xerox's anti-competitive acts and practices at those levels, will remain, or tend to remain for a much longer period if only a single new manufacturing company were created.

149. The creation of the New Manufacturing Companies will produce competition between or among them at the research and manufacturing levels and more speedily negate the effects of Xerox's present position and acts at those levels.

150. For the same reasons at the marketing and service levels, Xerox's present marketing and service facilities, assets and marketing and service personnel in the field of xerography should serve as the foundation for two or more wholly independent marketing and service companies (collectively referred to as the "New Marketing Companies"), which Xerox should be required to create. They should be properly staffed and financed, to own and operate those facilities and assets as may be most appropriately divided. The New Marketing Companies should be enjoined, as may be appropriate, from engaging in any anticompetitive marketing practices.

151. Second, the New Manufacturing Companies should be required for a period of ten years:

(a) on a royalty-free basis (or on a non-discriminatory reasonable royalty basis if the Court so determines), to grant to SCM and other potential and actual competitors and among themselves, non-exclusive licenses to practice for the life of each patent, all of the claims contained in the United States and foreign patents and patent applications owned or controlled by them during that period;

(b) on a reasonable basis to furnish SCM and other potential and actual competitors with other technical information and assistance with respect to the manufacture of plain paper office copiers as may be necessary and reasonably requested;

(c) on a reasonable method of allocation as determined by the Court, to make available for sale to qualified marketers, as the Court determines, the various models of plain paper office copiers, and replacement parts, which they manufacture; and

(d) to make those sales at reasonable prices based on a formula as determined by the Court which provides the New Manufacturing Companies with a reasonable profit in relation to cost.

152. Third, the New Manufacturing Companies should be enjoined for a period of ten years from engaging in any marketing activities with respect to plain paper office copiers other than those described in subparagraphs 151(c) and (d).

153. Fourth, the New Marketing Companies should be enjoined for a period of ten years with respect to plain paper office copiers from engaging in any research or manufacturing; and for a period of at least five years from expanding any of Xerox's present marketing and service facilities and the present number of its personnel engaged in those activities.

154. Fifth, all agreements by Xerox with any third parties which are presently in effect, under which Xerox obtains or possesses the right to obtain patents, patent applications or technical information in the field of xerography, should be declared illegal and of no further force and effect. The New Manufacturing Companies should be enjoined for a period of ten years from entering into any exclusive agreement with any third party, under which such new companies would obtain exclusive ownership or control over any such assets or rights.

155. Sixth, all agreements by Xerox with Rank-Xerox, Fuji-Xerox and any of their subsidiaries or affiliates, under which the rights to foreign patents and patent applications have been or will be licensed or assigned, should be declared illegal and of no further force and effect. The New Manufacturing Companies should be enjoined for a period of ten years from entering into any agreement with those companies under which they obtain any exclusive rights with respect to any foreign patents or patent applications, or any technical information or assistance.

156. Seventh, Xerox should be required to divest itself of any stock ownership or interest in Rank-Xerox, Fuji-Xerox and any of their subsidiaries and affiliates. The New

Manufacturing Companies and the New Marketing Companies should each be enjoined for a period of ten years from acquiring in whole or in part the stock of any other company engaged in activities involving the skill, technology, manufacture or marketing of plain paper office copiers, or from acquiring any other company's assets which are involved in, or related to, those activities. The sale of any of their assets or stock to any other company so engaged should likewise be enjoined for that period.

157. Eighth, the agreements described in paragraphs 42(c), 53 and 54 concerning post-employment restrictions against engaging in the field of xerography, should be declared unlawful, of no further force and effect and permanently enjoined.

158. The effects of such remedial relief will be:

(a) to enable the New Manufacturing Companies to continue Xerox's research and manufacturing at present levels and to permit the expansion of its activities and facilities in a competitive atmosphere so that continuing and increasing demands for existing and new improved office copiers can be competitively satisfied during the time needed for SCM and others to develop competitive research and manufacturing facilities;

(b) initially to create competition in the marketing of plain paper office copiers, bringing the benefits of price competition and other forms of marketing competition to users and the public;

(c) to afford SCM and others a fair opportunity to develop sufficient market shares which will stimulate competition and justify substantial investment by SCM and others in research and manufacturing facilities and activities;

(d) ultimately and permanently to eliminate the technological lead with respect to plain paper office copiers and xerography which Xerox possesses;

(e) ultimately and permanently to eliminate the effects of Xerox's monopolistic position and its anticompetitive acts and practices with respect to plain paper office copiers; and

(f) ultimately and permanently to produce full and fair competition in American interstate and foreign commerce with respect to:

(i) the skill, technology and manufacturing of plain paper office copiers; and

(ii) the marketing and service of such copiers.

159. The Court should retain continuing jurisdiction after entry of judgment. It can then make such other and appropriate modifications or amendments to its judgment as may be required or are appropriate based on post-judgment facts, to achieve those objectives and to create full and effective competition in the manufacture, marketing and service of plain paper office copiers in American interstate and foreign commerce.

B. *Preliminary Relief During the Pendency of This Action.*

160. During the pendency of this action, Xerox should be enjoined from threatening, instituting or maintaining any patent infringement action or claim against SCM with respect to SCM's present and future efforts to develop and market plain paper office copiers. The New Manufacturing Companies should be similarly enjoined permanently, except to the extent that SCM does not accept any patent licenses offered by such new companies on terms and conditions decreed by this Court.

161. During the pendency of this action Xerox should be enjoined or stayed from threatening, instituting or maintaining any other action or claim which might impede SCM's present and future efforts with respect to plain paper office copiers, or which might delay the final adjudication of this First Claim.

162. During the pendency of this action Xerox should be mandatorily enjoined to grant SCM a license with respect to all the United States patents and patent applications it owns or controls. Upon adjudication of this First Claim, it should be determined (in accordance with subparagraph 151(a) above) whether such license should be royalty-free or whether it should bear a reasonable royalty rate; and whether and to what extent any royalty rate decreed by the Court should be applied retroactively.

163. During the pendency of this action, Xerox should be enjoined against enforcing or attempting to enforce the agreements described in paragraphs 42(c), 53 and 54 concerning post-employment restrictions against engaging in the field of xerography.

164. The injunctive relief during the pendency of this action described in paragraphs 160 to 163 above should be granted because of the continuing irreparable injury inflicted by Xerox's acts and practices on SCM, other potential competitors of Xerox, users of plain paper office copiers and the public generally; and the likelihood that SCM will ultimately establish the violations of law and their effects as alleged in this First Claim.

165. Such injunctive relief during the pendency of this action should be granted so that effective first steps can be taken promptly to pry open and to begin to establish full and fair competition in the skill, technology, manufacture and marketing of plain paper office copiers.

SCM's Second Claim: For Treble Damages

SCM's Damages by Reason of Xerox's Unlawful Monopolization and Acts and Practices in Restraint of Competition with Respect to the Skill and Technology, and Therefore the Manufacture and Marketing, of Plain Paper Office Copiers.

166. The allegations contained in paragraphs 9 to 142 of the First Claim are repeated and re-alleged.

167. Xerox's continuing monopolization, exclusive control and acts and practices in restraint of competition with respect to the skill and technology of plain paper office copying in violation of the antitrust laws, caused damage to SCM because they effected high barriers against entry and restrained SCM in American interstate and foreign commerce:

(a) from manufacturing and marketing plain paper office copiers;

(b) from engaging in related business activities such as the rendering of service and the sale of supplies for plain paper office copiers; and

(c) from earning profits from the conduct of such business activities.

168. By reason thereof, as presently estimated by it, SCM has been damaged, in the amount of at least $145 million; and SCM shall continue to be damaged in an amount not presently known until such time as the effects of Xerox's unlawful acts and practices involved have been nullified.

169. Under 15 U.S.C. § 15, SCM is entitled to threefold the amount of at least $145 million; together with threefold the damages suffered by it (in an amount not presently known) from this time until the nullification of the effects of Xerox's unlawful acts and practices; and together with the costs of recovering all of such damages in this action, including reasonable attorneys' fees.

Proceedings with respect to SCM's Second Claim

170. Pretrial and trial proceedings with respect to this Second Claim, and with respect to any counterclaims which may be advanced by Xerox as a litigation response to SCM's institution of this action, should be held in abeyance or stayed until adjudication of the First Claim, for the reasons set forth in paragraph 145 and for the following reasons:

(a) The questions raised by the First Claim, which is solely for injunctive relief, are of even greater moment and urgency to SCM and the public than the nonetheless serious question of the amount of substantial damages heretofore suffered by SCM. The adjudication of the First Claim will determine to what extent, and the manner in which, SCM and others will be able to engage in plain paper office copying during the next decade and thereafter; and whether, and to what extent, users of office copiers and the public generally may secure the benefits of competition in connection with plain paper office copying.

(b) It is reasonable to anticipate that if the Federal Trade Commission in its pending action against Xerox is ultimately successful in securing injunctive relief

against the acts and practices of Xerox, the enforcement of such relief, after Xerox has exhausted all of its rights of appeal, is many years distant, even if those proceedings are expeditiously pursued.

(c) Xerox's chief executive officer has characterized those Commission proceedings as a "nuisance." He has promised that Xerox "will fight every aspect" of the case and that it is determined in the Commission proceedings to prove the lawfulness of all of its acts and practices, not only in defense of itself but in defense of the American patent system. He said that Xerox is not "changing anything" about the way it does business because of the Commission's allegations. Moreover, Xerox contends in its Answer that the Commission's claims of monopolization are not cognizable under Section 5(a) of the Federal Trade Commission Act, the provision of law which the Commission alleges Xerox has violated. Another Xerox official has stated that "We do not believe the Federal Trade Commission is the appropriate forum for the resolution of the problems of multi-national corporations."

(d) Prior adjudication of the illegality or legality of Xerox's acts and practices alleged in the First Claim, will simplify and reduce the scope and extent of pretrial and trial proceedings with respect to SCM's Second Claim for damages, because of the adjudication of the scope and extent of the illegality of Xerox's acts and practices and the possible elimination of some issues.

(e) The scope and extent of pretrial discovery proceedings carried on by the parties with respect to SCM's First Claim will be substantially less than those with respect to SCM's Second Claim. SCM's Second Claim covers, in addition to all matters covered by its First Claim, the consequent monetary effects on SCM's business over a long period of time. Contemporaneous and other proceedings with respect to SCM's Second Claim would inevitably produce protracted delay in the adjudication of SCM's First Claim, and impose a substantial additional litigation burden on the parties.

SCM's Third Claim: For Declaratory, Injunctive and Damage Relief With Respect to the Middleton-Reynolds '006 Patent

171. On February 11, 1964, United States Patent No. 3,121,006, entitled "Photo-Active Member for Xerography" (the Middleton-Reynolds '006 patent), was issued. Xerox acquired ownership of that patent under its 1956 agreement with Battelle.

The 1968 and 1964 License Agreements Between Xerox and SCM as to Coated Paper and Coated Paper Office Copiers.

172. On June 3, 1968 SCM and Xerox entered into a patent license agreement in which, for specified royalties, and subject to a field-of-use restriction limiting the license to coated paper for use in coated paper office copiers, Xerox granted an express license to SCM with respect to the Middleton-Reynolds '006 patent and an implied license as to other Xerox patents necessary to SCM's restricted use of the '006 license rights.

173. Simultaneously with the execution of the June 3, 1968 agreement, a prior patent license agreement of April 6, 1964 between SCM and Xerox was terminated. Under that April 6, 1964 agreement, for specified royalties and subject to a field-of-use restriction limiting the license to coated paper and coated paper office copiers, Xerox granted a license to SCM with respect to all of its Western Hemisphere patents, one of which was the Middleton-Reynolds '006 patent.

174. On or about May 26, 1971, SCM gave notice in writing of its cancellation of the June 3, 1968 agreement. Until that time, SCM had paid royalties to Xerox under the April 6, 1964 and June 3, 1968 agreements in the total amount of $639,192.62.

175. It is Xerox's claim that the direct electrostatic method employing zinc oxide as a photoconductor, used since 1962 in the manufacture of coated paper office copiers and coated paper marketed by SCM, infringed the Middle-

ton-Reynolds '006 patent; and that absent a license from Xerox, such infringement violates Xerox's patent rights entitling it to injunctive and damage relief. Although Xerox claims that the agreement of June 3, 1968 remains in effect, it has not, as of this date, commenced any action against SCM for royalties since October 1, 1970 based upon any claim of breach of contract; nor has it commenced any action against SCM as of this time for any alleged infringement.

The Invalidity, Unenforceability and Fraudulent Procurement of the Middleton-Reynolds '006 Patent

176. The Middleton-Reynolds '006 patent is invalid and unenforceable, and was procured by fraud and has been enforced in violation of the patent and antitrust laws:

(a) for each of the reasons alleged by Dennison Manufacturing Co., Nashua Corporation, Saxon Business Products, Inc., Litton Industries, Inc., Litton Business Systems, Inc. and Litton Systems, Inc. in their various presently pending litigations with Xerox (*Xerox Corp.* v. *Dennison Manufacturing Co.*, 67 Civ. 3302 in the Southern District of New York; *Xerox Corp.* v. *Nashua Corp.*, 69 Civ. 516 in the same court; *Xerox Corp.* v. *Saxon Business Products, Inc.*, 71 Civ. 2630 in the same court; and *Xerox Corp.* v. *Litton Industries, Inc., Litton Systems, Inc.* v. *Xerox Corp.* and *Litton Business Systems, Inc.* v. *Xerox Corp.*, all commenced in 1972, Civil Nos. 15,705, 15,136 and 15,137 in the District of Connecticut);

(b) by reason of Xerox's acquisition and unlawful attempted enforcement of the Middleton-Reynolds '006 patent and other patents purchased by Xerox under the 1956 Battelle agreement, as alleged in the First Claim; and

(c) by reason of Xerox's imposition of field-of-use restrictions in its licenses with SCM and others of the Middleton-Reynolds '006 patent and other xerographic patents which, alone or together with Xerox's other acts and practices as alleged in the First Claim, had the effect of restraining and excluding SCM and others from competing with Xerox in the manufacture and marketing of plain paper office copiers.

Relief and Proceedings With Respect to SCM's Third Claim

177. Under 28 U.S.C. § 2201 and the patent laws of the United States, and by reason of the existence of a case of actual controversy between the parties with respect to the matters involved, this Court should enter final judgment declaring that:

(a) the Middleton-Reynolds '006 patent is invalid and unenforceable and was procured by fraud; and

(b) under the June 3, 1968 agreement or otherwise, SCM is not obligated to pay and Xerox is not entitled to recover any further royalties or other relief with respect to any claimed breach of that agreement or any claimed infringement of the Middleton-Reynolds '006 patent.

178. SCM is entitled under 15 U.S.C. § 15 to threefold the damages suffered by it by reason of Xerox's fraudulent procurement of the Middleton-Reynolds '006 patent, and its enforcement of that fraudulently procured patent against SCM by the extraction of royalty payments in violation of Sections 1 and 2 of the Sherman Act, because such enforcement has had the effect of unreasonably restraining or of monopolizing or attempting to monopolize the manufacture and marketing of coated paper office copiers and coated paper. SCM should recover from Xerox threefold the amount of at least $612,116.97 of the royalties paid by SCM to Xerox, together with the costs of obtaining such judgment, including reasonable attorneys' fees.

179. Xerox should be permanently enjoined from enforcing the Middleton-Reynolds '006 patent.

180. Pretrial and trial proceedings with respect to this Third Claim should be held in abeyance or stayed until final adjudication of the previously commenced and presently pending litigations between Xerox and Dennison Manufacturing Co., Nashua Corp., Saxon Business Products, Inc., Litton Industries, Inc., Litton Business Systems, Inc. and Litton Systems, Inc.:

(a) because of the collateral estoppel effect in this action of any judgment adverse to Xerox with respect to the invalidity, unenforceability or fraudulent procurement of the Middleton-Reynolds '006 patent in any one or more of those litigations; and

(b) in the interests of the orderly administration of justice and the avoidance of potential unnecessary and burdensome litigation with respect to many of the issues raised by this Third Claim.

181. Pretrial and trial proceedings with respect to this Third Claim should be held in abeyance or stayed until adjudication of the First Claim for reasons similar to those alleged in paragraph 170 with respect to the Second Claim.

WHEREFORE, this Court should grant the interlocutory and permanent relief requested with respect to each of the claims in this complaint; the damages sought with respect to the Second and Third Claims; the disbursements, attorneys' fees and other costs as are allowable in law and in equity; and such other and further relief as this Court deems just and proper as to each Claim.

STEPHEN RACKOW KAYE
RONALD S. RAUCHBERG
Proskauer Rose Goetz & Mendelsohn
300 Park Avenue
New York, N.Y. 10022

JEROME GOTKIN
Widett & Widett
100 Federal Street
Boston, Mass. 02110

IRA B. GRUDBERG
Jacobs, Jacobs & Grudberg
207 Orange Street
New Haven, Conn. 06503

Attorneys for Plaintiff
SCM Corporation

SCM's Amended Complaint

United States District Court

FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION, Plaintiff, *against* XEROX CORPORATION, Defendant.	Civil No. 15807

AMENDED COMPLAINT

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United States District Court
FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION, Plaintiff, *against* XEROX CORPORATION, Defendant.	Civil No. 15807

AMENDED COMPLAINT

Plaintiff SCM Corporation ("SCM"), by its attorneys, for its amended complaint against Xerox Corporation ("Xerox"), on knowledge as to matters pertaining to itself and on information and belief as to all other matters, alleges:

Jurisdiction, Venue and the Parties

1. This action concerns the acts and practices of Xerox and their effects by which, in interstate and American foreign commerce:

(a) Xerox has, in violation of Section 2 of the Sherman Act (15 U.S.C. § 2), monopolized and attempted and conspired to monopolize the skill and technology and manufacture and marketing of plain paper office copiers;

(b) Xerox has, in violation of Section 1 of the Sherman Act (15 U.S.C. § 1), unreasonably restrained trade and commerce in the skill and technology and manufacture and marketing of plain paper office copiers through the means of acquisition agreements, exclusive dealing agreements, cross-licenses, grant-back agreements, joint ventures, restrictive employment agreements, and other contracts, agreements, conspiracies and combinations; and

(c) Xerox has, in violation of Section 7 of the Clayton Act (15 U.S.C. § 18), made acquisitions of patented and unpatented technology, other assets and stock, having the probable effect of substantially lessening competition or tending to create a monopoly in the skill and technology

and manufacture and marketing of plain paper office copiers.

2. This Court has jurisdiction of this action to adjudicate SCM's claims for injunctive relief and damages under Sections 4 and 16 of the Clayton Act (15 U.S.C. §§ 15 and 26), in that, by reason of Xerox's violations of Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act, SCM has been injured in its business or property and continues to suffer irreparable injury.

3. The acts and practices of Xerox alleged in this complaint have been committed in interstate commerce and in American foreign commerce.

4. Venue is properly in this district under Section 12 of the Clayton Act (15 U.S.C. § 22) because Xerox is found and transacts business and its executive offices are located within this judicial district.

5. Xerox and SCM are corporations organized and existing under the laws of the State of New York. Xerox is engaged in the manufacture and marketing of plain paper office copiers. SCM is engaged in the manufacture and marketing of coated paper office copiers and has attempted and is attempting to develop and market plain paper office copiers.

SCM's First Claim: For Prospective Injunctive Relief Against Xerox's Monopolistic and Anti-competitive Acts and Practices

Xerox's Monopoly Position With Respect to the Skill, Technology, Manufacture and Marketing of Plain Paper Office Copiers.

6. Plain paper office copiers are office machines which conveniently and cleanly produce copies of documents on plain or bond paper without the use of stencils, spirit or offset masters.

7. Generally, users of office copiers strongly prefer plain paper office copiers to coated paper office copiers (office machines which make copies on specially treated

and chemically coated paper), because of the better appearance, weight, usability and other features of plain or bond paper copies.

8. The only commercial means ever known to manufacture plain paper office copiers is through the use of xerography. "Xerography" is the name given in 1948 by Battelle Memorial Institute Inc. or Battelle Development Corporation (both collectively referred to as "Battelle") to the copying of documents by electrostatic means, regardless of whether producing copies of documents on plain paper or on specially treated and chemically coated paper or on other materials. It is the name used since 1948 by Xerox (then known as Haloid), and used in this complaint, to refer to such copying by electrostatic means.

9. The skill and technology of plain paper office copying is a specific and identifiable usage of xerography, which can be, and which Xerox has, segregated apart from other usages of xerography. It is an indispensable element in the manufacture of plain paper office copiers; and, without exception, it has been used in the manufacture of all plain paper office copiers ever manufactured by Xerox and anyone else.

10. The skill and technology of plain paper office copying, the manufacture of plain paper office copiers, and the marketing of plain paper office copiers are each a separate "part of trade or commerce" and "line of commerce" under Section 2 of the Sherman Act and Section 7 of the Clayton Act, respectively, and involve a substantial amount of "trade or commerce" under Section 1 of the Sherman Act.

11. From 1960 (when Xerox introduced its first plain paper office copier) until 1970, Xerox was the sole manufacturer and marketer of plain paper office copiers. Since 1970 other companies have marketed plain paper office copiers, but their competitive impact has been and continues to be minimal. Since 1970 Xerox's market share of the businesses of manufacturing and marketing plain paper office copiers has been more than 95%.

12. Xerox's annual revenues from all of its plain paper office copying activities rose from less than $4 million in

1960 to more than $1.9 billion in 1972, and its annual total profits before taxes from those activities rose from less than $1 million in 1960 to about $550 million in 1972. Its total profits before taxes from those activities in the period 1960-1972 amounted to more than $2.7 billion, of which $1.7 billion was earned in the period 1960-1970, and of which about $1 billion was earned in the two years of 1971 and 1972.

13. Xerox's monopolistic position and power with respect to the manufacture and marketing of plain paper office copiers and the extraordinary growth in its revenues and profits from those activities, resulted from its monopolization and exclusionary exploitation of the skill and technology of plain paper office copying, including the xerographic patents which it has owned and controlled.

14. Such monopolization was attained by 1961 or no later than 1963 as a direct and intended result of the adoption and implementation by Xerox of its policies of acquiring ownership, control and use of patented and unpatented skill and technology of plain paper office copying developed and owned by others, and by its exclusionary exploitation of such skill and technology, all as more fully alleged in paragraphs 16 to 25.

15. On that foundation of acquired monopoly power, and as the result of the continuing implementation of its policies, since 1961 Xerox's monopolization of the skill and technology and the manufacture and marketing of plain paper office copiers has been maintained and enlarged by: acquisition and aggregation of additional patented and unpatented xerographic technology; anticompetitive acts and practices; and continuing exclusionary exploitation of all of the patented and unpatented skill and technology of plain paper office copying which it had acquired and aggregated; all as more fully alleged in paragraphs 26 and 27.

Xerox's Unlawful Acquisitions of Patents and Technology from Battelle, Horizons and Others and Its Control by 1961 of the Skill and Technology of Plain Paper Office Copying.

16. Plain paper office copying and xerography, owe their origins to four basic patents issued between 1940 and

1944 to Chester Carlson and which expired between 1957 and 1961.

17. In 1944, Battelle and Carlson entered into an agreement to attempt commercialization of the four basic Carlson patents and to engage in further research and development concerning copying of documents by xerographic means.

18. From 1947 to 1956, Xerox entered into patent license and other agreements with Battelle under which Xerox obtained exclusive worldwide rights with respect to the four basic Carlson patents, all other issued United States and foreign xerographic development and improvement patents owned or controlled by Battelle, and all other xerographic patents thereafter issued to or acquired by Battelle. Also under those agreements, Battelle carried on xerographic research and development activities exclusively for Xerox.

19. In 1956, Xerox and Battelle entered into another agreement under which Xerox purchased and acquired exclusive United States and worldwide ownership and control of all of the patented and unpatented skill and technology in the field of xerography which Battelle had developed by that time, and which it has developed during the 17 years since that time. Under that agreement, Xerox also has the continuing option to acquire exclusive ownership of all patented and unpatented xerographic technology hereafter developed by Battelle.

20. Since 1956 Battelle has engaged and continues to engage in xerographic research and development activities exclusively for Xerox.

21. In 1960, Xerox entered into agreements with Horizons, Inc. under which Xerox purchased a number of xerographic United States and foreign patents and patent applications. Since that time, and also pursuant to those agreements, Horizons has engaged in xerographic research for Xerox's sole and exclusive benefit and use.

22. Prior and subsequent to 1960, Xerox obtained access to and use of other patented and unpatented xerographic

technology developed and owned by numerous other companies by entering into various acquisition, exclusive, cross-license, grantback and other agreements. Those agreements were made by Xerox pursuant to its policies of excluding others from practicing the skill and technology of plain paper office copying; of allowing and licensing others to use xerographic technology for designated purposes so long as they did not include plain paper office copying; and of further enlarging its own unrestricted rights in and access to patented and unpatented xerographic technology developed by others.

23. As a result of the agreements with Battelle, Horizons and numerous others, by 1961, by which year the last of the four basic Carlson patents had expired, Xerox had acquired and aggregated ownership of about 1,000 United States and foreign xerographic patents and patent applications. Xerox had also assured itself exclusive and other contractual rights to future innovative xerographic development by Battelle, Horizons and others.

24. By 1961 and in any event no later than 1963, Xerox had acquired and aggregated a patent thicket of xerographic patents and patent applications which excluded and prevented SCM and other potential competitors from engaging in the manufacture of plain paper office copiers. By such times, Xerox had:

(a) re-established a patent structure with respect to xerography and plain paper office copying which afforded it protection almost equalling that which it possessed during the period of basic patent coverage;

(b) recreated a powerful patent structure which assured it the right to proceed with its own programs in plain paper office copying without much likelihood of being blocked by others, while giving it the power to exclude and block potential competitors from entry into the businesses of manufacturing and marketing plain paper office copiers; and

(c) ensured that no one else could engage in the manufacture or marketing of plain paper office copiers without patent licensing by Xerox.

25. By 1961 or no later than 1963, Xerox had acquired and achieved worldwide control and monopoly power over the patented and unpatented skill and technology of plain paper office copying, which it would be in a position to exploit for many years to come, and which gave it the monopolist's powers to:

(a) regiment the entire businesses of manufacturing and marketing plain paper office copiers;

(b) perpetuate its control over those businesses long after the basic patents had expired;

(c) channel systematically the fruits of invention of an entire technological field of endeavor into its own hands;

(d) exclude competitors and suppress and restrain any potential or actual competition in the manufacture and marketing of plain paper office copiers; and

(e) perfect and enlarge an industrial monopoly with respect to those businesses.

Since 1961, Xerox Has Unlawfully Exercised, Maintained and Enlarged Its Acquired Monopoly Power and Unlawfully Restrained Competition With Respect to the Skill, Technology, Manufacture and Marketing of Plain Paper Office Copiers.

26. On the foundation of the monopoly and anti-competitive power it had acquired and achieved with respect to the skill and technology of plain paper office copying as alleged above, Xerox has exercised that power since 1961 (and in some respects prior to that time), by engaging in the acts and practices alleged below in paragraph 27. Those acts and practices have had the actual and probable effects (whether or not intended by Xerox) with respect to the skill, technology, manufacture and marketing of plain paper office copiers, of suppressing, foreclosing and restraining competition by SCM and others; of creating, maintaining and increasing the number, scope and impact of barriers to entry and effective competition; and of maintaining and increasing the size and scope of Xerox's monopoly.

27. The acts and practices of Xerox since 1961 (and in some respects prior to that time), include, among others:

(a) continuing its exclusionary exploitation of the patented and unpatented skill and technology of plain paper office copying which it had acquired and aggregated, purposefully to exclude and restrain competition while it carried on and enlarged all of its own plain paper office copier activities;

(b) continuing to acquire, under exclusive, restrictive and other agreements, the patented and unpatented xerographic skill and technology developed by Battelle, Horizons and others;

(c) acquiring other companies to obtain their xerographic technology and the services of their scientific or technical personnel;

(d) requiring its research, scientific and technical personnel, and since 1970 its managerial and professional personnel, to execute written restrictive agreements preventing or restraining them from engaging in xerographic activities for any other company following termination of employment with Xerox;

(e) perpetuating its exclusive control over the services of most of the scientific and technical personnel possessing skill or experience in xerography, and building a technical community under its exclusive control which by 1972 included about 95% of the world's personnel proficient in xerography;

(f) enormously expanding its xerographic research and development facilities and activities and the number of professional and skilled employees engaged in those activities;

(g) implementing a policy of concealing unpatented xerographic skill and technology;

(h) implementing a policy of prosecuting many patent applications and obtaining many patents, solely for the purpose of excluding and restraining plain paper office copier competition by, among other things:

(i) re-establishing the patent protection afforded by expiring patents;

(ii) securing ownership or control of "blocking patents";

(iii) further enlarging the patent thicket of xerographic patents which it possessed by 1961, and which presently consists of more than 1600 unexpired United States patents, more than 200 pending United States patent applications and many thousands of foreign patents and patent applications;

(iv) increasing the difficulty and expense to others in attempting to design around those patents; and

(v) increasing the difficulty and risk to others in attempting to manufacture plain paper office copiers without infringement of those patents;

(i) using only a small fraction of its patented inventions and the inventions covered in its patent applications in the plain paper office copiers it has manufactured and the copiers which it is presently developing, with the balance of the many patented inventions which it has not used having the effect of "blocking patents";

(j) refusing to identify the patented inventions it claims to use in each of its plain paper office copiers despite its undertaking to do so as set forth on legends it has affixed to those copiers ("Manufactured Under One or More U.S. Patents Owned or Controlled by Xerox Corporation--List Supplied on Request"), for the purpose of preventing others from determining which aspects of its plain paper office copiers Xerox claims are not in the public domain and which aspects of such copiers are in the public domain;

(k) entering into and maintaining in force various restrictive patent license agreements whereby Xerox licensees have been permitted to use patented xerographic technology only so long as the technology was not used in connection with the manufacture or marketing of plain paper office copiers;

(l) asserting that its patents gave it exclusive control over the manufacture of plain paper office copiers and that it was thereby impossible for anyone else, absent a

license from Xerox, to manufacture such copiers without infringing some of those patents;

(m) falsely asserting to SCM and others that it would give serious consideration to their requests for patent licenses with respect to plain paper office copying, when in fact it had no intention of giving any such requests any consideration;

(n) repeatedly refusing to grant the requests by SCM and others for patent licenses with respect to plain paper office copying, and refusing until late 1970 to offer any plain paper office copying patent licenses;

(o) in late 1970, and 1973, making only meaningless and illusory offers to SCM and others of patent licenses at unreasonably high royalty rates with respect to three, and then four of its xerographic patents, all of which had been acquired from Battelle or Horizons and all of which embodied old technology, and in each instance without offering any protection against any infringement action it might bring based on its many other patents;

(p) threatening and maintaining burdensome patent infringement litigation against manufacturers and marketers of coated paper office copying products using xerographic means, and against actual and potential plain paper office copier competitors, including SCM;

(q) developing and manufacturing the models of plain paper office copiers it introduced between 1960 and 1965 by primarily using patented and unpatented technology acquired from Battelle, Horizons and others;

(r) developing and manufacturing the many new and improved models of plain paper office copiers it has introduced since 1965, and developing the new and improved models it presently plans to introduce and manufacture in the future by continuing to use patented and unpatented technology acquired from Battelle, Horizons and others, together with additional technology it has aggregated as the result of its own activities;

(s) greatly expanding its manufacturing and marketing facilities, personnel and capabilities, and greatly expanding its multiple product line during the many years

it sheltered itself from any plain paper office copier competition and the few recent years when it has faced only minimal competition;

(t) effectuating, maintaining and enlarging since 1956 the worldwide cartelization and control over the skill and technology of plain paper office copying and the manufacture and marketing of plain paper office copiers, by agreements and a continuing combination and conspiracy with the Rank Organisation, Ltd., Rank-Xerox, Ltd., Fuji Photo Film Co., Ltd. of Japan and Fuji-Xerox, Ltd., pursuant to which, among other things:

(i) a worldwide division of exclusive territories was effectuated among Xerox, Rank-Xerox and Fuji-Xerox, excluding and restraining potential American competitors such as SCM from attempting to manufacture and market plain paper office copiers throughout the world;

(ii) Xerox contributed to Rank-Xerox and Fuji-Xerox the patents and technical know-how which has enabled them to manufacture and sell plain paper office copiers, a contribution which constituted the export in American foreign commerce of American-owned technological assets;

(iii) Xerox and Rank-Xerox obtained access to and use of xerographic technology developed by Fuji-Xerox;

(iv) Xerox acquired control of Rank-Xerox;

(v) Xerox caused Rank-Xerox to cancel, and Savin Business Machines Corp. to surrender, the patent license which Rank-Xerox had previously granted Savin with respect to plain paper office copying as a condition to the granting by Xerox to Savin of a United States patent license for coated paper office copying by xerographic means;

(vi) Xerox restrained Rank-Xerox from granting plain paper office copying patent licenses to others in Rank-Xerox's territories;

(vii) Xerox and Rank-Xerox threatened and maintained burdensome patent infringement litigation with respect to the manufacture of plain paper office copiers by others in foreign countries; and

(viii) Xerox realized hundreds of millions of dollars of profits.

The Unlawful Effects of Xerox's Acts and Practices and Violations of Law.

28. The unlawful monopolistic and anticompetitive effects of Xerox's acts and practices as alleged in this complaint have been and are, among other things, that:

(a) Xerox acquired, and thereafter exercised, monopolistic and anticompetitive power with respect to the skill and technology and the manufacture and marketing of plain paper office copiers;

(b) Xerox excluded and restrained potential competitors including SCM from engaging in the manufacture and marketing of plain paper office copiers;

(c) Xerox faced no plain paper office copier competition from 1960 to 1970 and it has faced only minimal plain paper office copier competition since 1970;

(d) Xerox has exercised its ability to determine and control the pace and direction of scientific inquiry and endeavor in xerography and the skill and technology of plain paper office copying, in large part free from the influence of the competitive efforts of others;

(e) research and development by others with respect to the skill and technology and the manufacture of plain paper office copying has been restrained;

(f) Xerox has excluded, restrained and hampered potential and actual competitors from seeking to compete for and to obtain the benefits of the services of most of the world's personnel who have technical competence and experience in xerography;

(g) Xerox has preserved and enlarged its technological lead, its development, engineering and manufacturing lead, its marketing lead, and its monopolistic, manufacturing and marketing power with respect to plain paper office copiers;

(h) potential and actual plain paper office copier competitors face the risk of early obsolescence of their copiers;

(i) Xerox has assured itself of the patronage for many years to come of most users of plain paper office copiers;

(j) Xerox has secured the many advantages of a multi-billion dollar business organization having new and extensive research, manufacturing and marketing facilities; widespread customer acceptance of its plain paper office copier products; highly developed customer connections; large numbers of skilled and experienced personnel; and great research, manufacturing and marketing power; and such advantages are great barriers to competition and competitive entry; and

(k) Xerox has excluded and restrained American foreign commerce with respect to the skill and technology and manufacture and marketing of plain paper office copiers; and has excluded and restrained the export of American-manufactured plain paper office copiers by others to foreign countries throughout the world.

29. Even if all the patents acquired and aggregated by Xerox were validly issued, Xerox's acts and practices and their effects as alleged in this complaint:

(a) violate Section 2 of the Sherman Act, since by reason of those acts and practices, Xerox has monopolized and attempted and conspired to monopolize interstate and American foreign commerce in the skill and technology and the manufacture and marketing of plain paper office copiers;

(b) violate Section 1 of the Sherman Act to the extent that such acts and practices have involved agreements, contracts, conspiracies or combinations, which have unreasonably restrained trade or commerce by excluding and restraining competitors and potential competitors in interstate and American foreign commerce from gaining access to and use of the skill and technology of plain paper office copying and by excluding and restraining competition with respect to the manufacture and marketing of plain paper office copiers; and

(c) violate Section 7 of the Clayton Act to the extent such acts and practices have involved the acquisition

or purchase of patented and unpatented technology, other assets and stock, since their probable effects have been substantially to lessen competition or tend to create a monopoly in interstate and American foreign commerce with respect to the skill and technology and the manufacture and marketing of plain paper office copiers.

30. Unless Xerox's acts and practices as alleged in this complaint are declared to be against public policy and illegal, and unless they are enjoined and far-reaching remedial injunctive relief is granted, so that the effects of such policies and acts and practices are dissipated and nullified during the pendency of this action and permanently:

(a) SCM and other potential and actual plain paper office copier competitors will continue to be irreparably injured;

(b) the hundreds of thousands of users of plain paper office copiers (including state and federal governmental agencies, business and professional organizations, and educational and charitable institutions), and the public, will be deprived of the benefits of competition and will continue to bear the burden of Xerox's anticompetitive and monopolistic acts and practices;

(c) plain paper office copier competition will continue to be restrained and the establishment of full and fair competition will be prevented.

Relief With Respect to SCM's First Claim.

A. Permanent Relief

31. The Court should declare that Xerox's acts and practices alleged in this First Claim are illegal and against public policy and that as alleged in paragraph 29, they violate Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act.

32. After adjudication of Xerox's violations of law, and after consideration of the present and prospective effects of such violations, the Court should fashion and

grant the necessary and appropriate remedial injunctive relief so that:

(a) full and fair competition with respect to the skill, technology, manufacture and marketing of plain paper office copiers in American interstate and foreign commerce will be established;

(b) SCM and others will be afforded a full and fair opportunity to compete at the research, manufacturing and marketing levels;

(c) users of plain paper office copiers and the public will have the benefits of full and fair competition at each of those levels; and

(d) the present and prospective effects of Xerox's monopolistic position and anticompetitive acts and practices will be effectively and permanently eliminated.

33. The remedial injunctive relief required to achieve those objectives must necessarily be fashioned and granted in light of the facts as they exist after the adjudication of Xerox's violations of law. Because of the continuing and prospective irreparable injury to SCM, other potential and actual competitors, users, and the public, the summary or trial adjudication of Xerox's violations of law and SCM's prayer for preliminary injunctive relief, and the trial adjudication of the permanent relief to be granted with respect to this First Claim, should be expedited to the maximum extent possible.

Is above preliminary.

34. Permanent injunctive remedial relief in this action should be granted along the lines set forth in paragraphs 35 to 46, 48 and the second sentence of paragraph 49.

35. *First*, Xerox should be required to divest itself of all of its research, patents, technical and manufacturing facilities and assets in the field of xerography. It should be required to create two or more wholly separate and independent companies, properly staffed and financed, to own and operate those facilities and assets as they may be appropriately divided. Thereafter, such new research and manufacturing companies (collectively referred to as the "New Manufacturing Companies") would carry on those activities in the field of xerography.

36. The creation of two or more such new manufacturing companies is necessary since the monolithic and monopolistic character at the research and manufacturing levels, and the effects of Xerox's anti-competitive acts and practices at those levels, will remain for a much longer period if only a single new manufacturing company were created.

37. The creation of the New Manufacturing Companies will produce competition among them at the research and manufacturing levels and more speedily negate the effects of Xerox's present position and acts at those levels.

38. For the same reasons at the marketing and service levels, Xerox's present marketing and service facilities, assets and marketing and service personnel in the field of xerography should serve as the foundation for two or more wholly independent marketing and service companies (collectively referred to as the "New Marketing Companies"), which Xerox should be required to create. They should be properly staffed and financed, to own and operate those facilities and assets as may most appropriately be divided. The New Marketing Companies should be enjoined, as may be appropriate, from engaging in any anticompetitive marketing practices.

39. *Second*, the New Manufacturing Companies should be required for a period of ten years:

(a) on a royalty-free basis (or on a non-discriminatory reasonable royalty basis if the Court so determines), to grant to SCM and other potential and actual competitors and among themselves, non-exclusive licenses to practice for the life of each patent, all of the claims contained in the United States and foreign patents and patent applications owned or controlled by them during that period;

(b) on a reasonable basis to furnish SCM and other potential and actual competitors with other technical information and assistance with respect to the manufacture of plain paper office copiers as may be necessary and reasonably requested;

(c) on a reasonable method of allocation as determined by the Court, to make available for sale to qualified marketers, as the Court determines, the various models of

plain paper office copiers, and replacement parts, which they manufacture; and

(d) to make those sales at reasonable prices based on a formula as determined by the Court which provides the New Manufacturing Companies with a reasonable profit in relation to cost.

40. *Third,* the New Manufacturing Companies should be enjoined for a period of ten years from engaging in any marketing activities with respect to plain paper office copiers other than those described in subparagraphs 39(c) and (d).

41. *Fourth,* the New Marketing Companies should be enjoined for a period of ten years with respect to plain paper office copying from engaging in any research or manufacturing; and for a period of at least five years from expanding any of Xerox's present marketing and service facilities and the present number of its personnel engaged in those activities.

42. *Fifth,* Xerox should be required to disclose to SCM and other potential and actual competitors its confidentially-maintained unpatented technology relating to plain paper office copying and its then existing short and long range plans for the manufacture and marketing of plain paper office copiers.

43. *Sixth,* all agreements by Xerox with any third parties which are presently in effect, under which Xerox obtains or possesses the right to obtain patents, patent applications or technical information in the field of xerography, should be declared illegal and of no further force and effect. The New Manufacturing Companies should be enjoined for a period of ten years from entering into any exclusive agreement with any third party, under which such new companies would obtain exclusive ownership or control over any such assets or rights.

44. *Seventh,* all agreements by Xerox with Rank Xerox, Fuji-Xerox and any of their subsidiaries or affiliates, under which the rights to foreign patents, patent applications and other xerographic technology have been or will be licensed or

assigned, should be declared illegal and of no further force and effect. The New Manufacturing Companies should be enjoined for a period of ten years from entering into any agreement with those companies under which they obtain any exclusive rights with respect to any foreign patents or patent applications, or any technical information or assistance.

45. *Eighth*, Xerox should be required to divest itself of any stock ownership or interest in Rank-Xerox, Fuji-Xerox and any of their subsidiaries and affiliates. The New Manufacturing Companies and the New Marketing Companies should each be enjoined for a period of ten years from acquiring in whole or in part the stock of any other company engaged in activities involving the skill, technology, manufacture or marketing of plain paper office copiers, or from acquiring any other company's assets which are involved in, or related to, those activities. The sale of any of their assets or stock to any other company so engaged should likewise be enjoined for that period.

46. *Ninth*, the restrictive agreements described in subparagraph 27(d), should be declared unlawful, of no further force and effect and permanently enjoined.

47. The effects of such remedial relief will be:

(a) to enable the New Manufacturing Companies to continue Xerox's research and manufacturing at present levels and to permit the expansion of its activities and facilities in a competitive atmosphere so that continuing and increasing demands for plain paper office copiers can be competitively satisfied during the time needed for SCM and others to develop competitive research and manufacturing facilities;

(b) to create competition in the marketing of plain paper office copiers, bringing the benefits of price competition and other forms of marketing competition to users and the public;

(c) to afford SCM and others a fair opportunity to develop sufficient market shares which will stimulate competition and justify substantial investment by SCM and

others in research and manufacturing facilities and activities;

(d) to eliminate the technological, manufacturing, marketing and other leads with respect to plain paper office copiers and xerography which Xerox possesses;

(e) to eliminate the effects of Xerox's monopolistic position and its anticompetitive acts and practices with respect to plain paper office copiers; and

(f) to establish full and fair competition in American interstate and foreign commerce with respect to:

(i) the skill, technology and manufacture of plain paper office copiers; and

(ii) the marketing of such copiers.

48. The Court should retain continuing jurisdiction after entry of judgment. It can then make such modifications or amendments to its judgment as may be appropriate based on post-judgment facts, to achieve the objectives described in the preceding paragraph.

B. Preliminary Relief During the Pendency of This Action.

49. During the pendency of this action, Xerox should be enjoined from threatening, instituting or maintaining any patent infringement action or claim against SCM with respect to SCM's present and future efforts to develop and market plain paper office copiers. The New Manufacturing Companies should be similarly enjoined permanently, except to the extent that SCM does not accept any patent licenses offered by such new companies on terms and conditions decreed by this Court.

50. During the pendency of this action Xerox should be enjoined or stayed, directly or indirectly, from threatening, instituting or maintaining any other action or claim here or abroad which might impede SCM's present and future efforts with respect to plain paper office copiers, or which might delay the final adjudication of this First Claim.

51. During the pendency of this action, Xerox should be mandatorily enjoined to grant SCM a license with respect to all the United States and foreign patents and patent applications it owns or controls. Upon adjudication of this First Claim, it should be determined (in accordance with subparagraph 39 (a) above) whether such license should be royalty-free or whether it should bear a reasonable royalty rate; and whether and to what extent any royalty rate decreed by the Court should be applied retroactively.

52. During the pendency of this action, Xerox should be mandatorily enjoined to disclose its present short and long range plans for the manufacture and marketing of plain paper office copiers.

53. During the pendency of this action, Xerox should be enjoined against enforcing or attempting to enforce the agreements described in subparagraph 27(d).

54. The injunctive relief during the pendency of this action described in paragraphs 49 to 53 above, and such other preliminary injunctive relief as may be appropriate, should be granted because of the continuing irreparable injury inflicted by Xerox's acts and practices on SCM, other potential and actual competitors of Xerox, users of plain paper office copiers and the public generally; and the likelihood that SCM will ultimately establish the violations of law and their effects as alleged in this First Claim.

55. Such injunctive relief during the pendency of this action should be granted so that effective first steps can be taken promptly toward the establishment of full and fair competition in the skill, technology, manufacture and marketing of plain paper office copiers.

SCM's Second Claim: For Treble Damages

SCM's Damages by Reason of Xerox's Unlawful Monopolization and Acts and Practices in Restraint of Trade and Competition with Respect to the Skill and Technology and Manufacture and Marketing of Plain Paper Office Copiers.

56. The allegations contained in paragraphs 6 to 29 of the First Claim are repeated and re-alleged.

57. Xerox's continuing unlawful monopolization, exclusive control and acts and practices in restraint of trade and competition with respect to the skill and technology and the manufacture and marketing of plain paper office copiers, caused damage to SCM because they effected high barriers against competitive entry, and because they excluded and restrained SCM in American interstate and foreign commerce:

(a) from manufacturing and marketing plain paper office copiers;

(b) from engaging in related business activities such as the rendering of service and the sale of supplies for plain paper office copiers; and

(c) from earning profits from the conduct of such business activities.

58. By reason thereof, as presently estimated by it, SCM has been damaged, in the amount of at least $145 million; and SCM shall continue to be damaged in an amount not presently known until such time as the effects of Xerox's unlawful acts and practices involved have been nullified.

59. Under 15 U.S.C. § 15, SCM is entitled to threefold the amount of at least $145 million; together with threefold the damages suffered by it (in an amount not presently known) from this time until the nullification of the effects of Xerox's unlawful acts and practices; and together with the costs of recovering all of such damages in this action, including reasonable attorneys' fees.

SCM's Third Claim: For Declaratory, Injunctive and Damage Relief With Respect to the Middleton-Reynolds '006 Patent

60. On February 11, 1964, United States Patent No. 3,121,006, entitled "Photo-Active Member for Xerography" (the Middleton-Reynolds '006 patent), was issued. Xerox acquired ownership of that patent under its 1956 agreement with Battelle.

The 1968 and 1964 License Agreements Between Xerox and SCM as to Coated Paper and Coated Paper Office Copiers.

61. On June 3, 1968 SCM and Xerox entered into a patent license agreement in which, for specified royalties, and subject to a field-of-use restriction limiting the license to coated paper for use in coated paper office copiers, Xerox granted an express license to SCM with respect to the Middleton-Reynolds '006 patent and an implied license as to other Xerox patents necessary to SCM's restricted use of the '006 license rights.

62. Simultaneously with the execution of the June 3, 1968 agreement, a prior patent license agreement of April 6, 1964 between SCM and Xerox was terminated. Under that April 6, 1964 agreement, for specified royalties and subject to a field-of-use restriction limiting the license to coated paper and coated paper office copiers, Xerox granted a license to SCM with respect to all of its Western Hemisphere patents, one of which was the Middleton-Reynolds '006 patent.

63. On or about May 26, 1971, SCM gave notice in writing of its cancellation of the June 3, 1968 agreement. Until that time, SCM had paid royalties to Xerox under the April 6, 1964 and June 3, 1968 agreements in the total amount of $639,192.62.

64. It is Xerox's claim that the direct electrostatic method employing zinc oxide as a photoconductor, used since 1962 in the manufacture of coated paper office copiers and coated paper marketed by SCM, infringed the Middle-

ton-Reynolds '006 patent; and that absent a license from Xerox, such infringement violates Xerox's patent rights entitling it to injunctive and damage relief. Although Xerox claims that the agreement of June 3, 1968 remains in effect, it has not, as of this date, commenced any action against SCM for royalties since October 1, 1970 based upon any claim of breach of contract; nor has it commenced any action against SCM as of this time for any alleged infringement.

The Invalidity, Unenforceability and Fraudulent Procurement of the Middleton-Reynolds '006 Patent.

65. The Middleton-Reynolds '006 patent is invalid and unenforceable, and was procured by fraud and has been enforced in violation of the patent and antitrust laws because:

(a) The patent does not meet the conditions of patentability under 35 U.S.C. §§ 101, 102, 103 and 120 in that, among other things: (i) the claimed invention was not a new and useful process, machine, manufacture or composition of matter or a new and useful improvement thereof; (ii) the claimed invention was anticipated by or obvious in view of the prior art; (iii) Middleton and Reynolds did not themselves jointly invent the subject matter encompassed thereby; and (iv) Middleton and Reynolds abandoned the invention which they claimed to have made;

(b) The patent fails to particularly point out and distinctly claim the subject matter which Middleton and Reynolds regard as their invention;

(c) During the solicitation of the patent, recklessly or with intent to deceive, material facts were misrepresented or withheld from the Patent Office;

(d) An interference proceeding in the Patent Office was not contested when it was known that a conflict existed between claimed subject matter in the solicitation of the patent and claimed subject matter of an earlier filed and earlier issued patent;

(e) Xerox threatened and maintained patent infringement litigation against SCM and others, and extracted royalty payments from SCM and others, based on

the patent, when it knew or should have known that the patent was invalid and unenforceable and had been procured by fraud as alleged in subparagraphs (a) through (d) above;

(f) Xerox licensed the patent on discriminatory, restrictive and other unlawful terms and conditions;

(g) Xerox acquired and unlawfully attempted to enforce the patent and other patents purchased by it under the 1956 Battelle agreement, as alleged in the First Claim; and

(h) Xerox imposed field-of-use restrictions in its licenses with SCM and others of the patent and other xerographic patents which, alone or together with Xerox's other acts and practices as alleged in the First Claim, had the effect of restraining and excluding SCM and others from competing with Xerox in the manufacture and marketing of plain paper office copiers.

Relief With Respect to SCM's Third Claim.

66. Under 28 U.S.C. § 2201 and the patent laws of the United States, and by reason of the existence of a case of actual controversy between the parties with respect to the matters involved, this Court should enter final judgment declaring that:

(a) the Middleton-Reynolds '006 patent is invalid and unenforceable and was procured by fraud; and

(b) under the June 3, 1968 agreement or otherwise, SCM is not obligated to pay and Xerox is not entitled to recover any further royalties or other relief with respect to any claimed breach of that agreement or any claimed infringement of the Middleton-Reynolds '006 patent.

67. SCM is entitled under 15 U.S.C. § 15 to threefold the damages suffered by it by reason of Xerox's fraudulent procurement of the Middleton-Reynolds '006 patent, and its enforcement of that fraudulently procured patent against SCM by the extraction of royalty payments in violation of Sections 1 and 2 of the Sherman Act, because such enforcement has had the effect of unreasonably restraining or of monopolizing or attempting to monopolize the manufacture and marketing of coated paper office copiers and coated

paper. SCM should recover from Xerox threefold the amount of at least $612,116.97 of the royalties paid by SCM to Xerox, together with the costs of obtaining such judgment, including reasonable attorneys' fees.

68. Xerox should be permanently enjoined from enforcing the Middleton-Reynolds '006 patent.

WHEREFORE, this Court should grant the interlocutory and permanent relief requested with respect to each of the claims in this complaint; the damages sought with respect to the Second and Third Claims; the disbursements, attorneys' fees and other costs as are allowable in law and in equity; and such other and further relief as this Court deems just and proper as to each Claim.

STEPHEN RACKOW KAYE
RONALD S. RAUCHBERG
Proskauer Rose Goetz & Mendelsohn
300 Park Avenue
New York, N.Y. 10022

JEROME GOTKIN
Widett & Widett
100 Federal Street
Boston, Mass. 02110

IRA B. GRUDBERG
DAVID L. BELT
Jacobs, Jacobs & Grudberg
207 Orange Street
New Haven, Conn. 06503

Attorneys for Plaintiff
SCM Corporation

November 2, 1973

Xerox' Answer to SCM's Amended Complaint

1.19.71

SCM CORPORATION,	:	
Plaintiff,	:	
-against-	:	Civ. No. 15807
XEROX CORPORATION,	:	Defendant Demands Trial By Jury
Defendant.	:	

ANSWER

Defendant Xerox Corporation ("Xerox") for its answer to the Amended Complaint (hereinafter the "complaint"), alleges:

1. Denies each and every allegation contained in paragraph 1 of the complaint.

2. Denies each and every allegation contained in paragraph 2 of the complaint, except admits that plaintiff purports to institute this action under Sections 4 and 16 of the Clayton Act (15 U.S.C. §§ 15 and 26) for injunctive relief and damages.

3. Denies each and every allegation contained in paragraph 3 of the complaint, except admits that Xerox is engaged in commerce within the meaning of the Sherman and Clayton Acts.

4. Admits the allegations contained in paragraph 4 of the complaint.

5. Denies knowledge or information sufficient to form a belief as to the truth of the allegations contained in paragraph 5 of the complaint, except admits that Xerox is

a corporation organized and existing under the laws of the State of New York, is engaged in the manufacture and marketing of plain paper office copiers and that SCM is engaged in the manufacture and marketing of coated paper office copiers.

6. Denies each and every allegation contained in paragraph 6 of the complaint, except admits that it purports to state an unduly narrow definition of "plain paper office copiers" which is used throughout the complaint. (Although denying the validity of this definition, this answer will nevertheless respond to the allegations of the complaint in terms which assume that the definition in paragraph 6 of the complaint applies.)

7. Denies each and every allegation contained in paragraph 7 of the complaint.

8. Admits the allegations of the first sentence of paragraph 8 of the complaint, except denies knowledge or information sufficient to form a belief as to whether a plain paper office copier recently advertised by Minnesota Mining and Manufacturing Co. employs xerography; denies each and every allegation contained in the second sentence of paragraph 8, except admits that the name "xerography" was selected in 1948 by Xerox and Battelle to describe the art of forming and utilizing an electrostatic charge pattern on an insulating or photoconductive insulating surface; and admits the allegations contained in the third sentence of paragraph 8 of the complaint.

9. Denies each and every allegation contained in the first sentence of paragraph 9 of the complaint and denies knowledge or information sufficient to form a belief as to

the truth of the second sentence of paragraph 9 of the complaint, except admits that Xerox has employed xerography in all of its plain paper office copiers.

10. Denies each and every allegation contained in paragraph 10 of the complaint.

11. Denies each and every allegation contained in the first two sentences of paragraph 11 of the complaint; and denies information sufficient to form a belief as to the truth of the allegations of the third sentence of paragraph 11 of the complaint.

12. Denies each and every allegation contained in paragraph 12 of the complaint.

13. Denies each and every allegation contained in paragraph 13 of the complaint.

14. Denies each and every allegation contained in paragraph 14 of the complaint.

15. Denies each and every allegation contained in paragraph 15 of the complaint.

16. Denies each and every allegation contained in paragraph 16 of the complaint, except admits that inventions by Chester Carlson marked the beginning of xerography and that certain of these inventions were covered by four patents which issued between 1940 and 1944 and which expired between 1957 and 1961.

17. Denies each and every allegation contained in paragraph 17 of the complaint, except admits that Battelle and Carlson entered into an agreement in 1944 which provided that Battelle was appointed exclusive agent for the purpose of negotiating and granting licenses under three of the four patents referred to in paragraph 16 of the complaint

and the predecessor patent application of the fourth patent, and that Battelle was to be diligent in prosecuting research and development work to perfect and improve these inventions and in trying to promote commercial use of these inventions. (Reference to the agreement is necessary for its precise terms.)

18. Denies each and every allegation contained in paragraph 18 of the complaint, except admits that Xerox entered into agreements with Battelle effective between 1947 and 1956 under which Xerox ultimately obtained an exclusive license under the four Carlson patents referred to in paragraph 16, certain other issued United States and foreign xerographic patents owned or controlled by Battelle, and certain other patents which Battelle might subsequently own or control relating to these inventions and Battelle carried on xerographic research and development activities for Xerox. (Reference to the agreements are necessary for their precise terms.)

19. Denies each and every allegation contained in paragraph 19 of the complaint, except admits that Xerox and Battelle entered into an agreement effective as of 1956 under which Battelle assigned to Xerox the four Carlson patents referred to in paragraph 16, licensed certain of its patents, patent applications and technical information relating to xerography for a certain period and granted certain contingent rights to those and future patents, patent applications and technical information of Battelle relating to xerography. (Reference to the agreement is necessary for its precise terms.)

20. Admits the allegations of paragraph 20 of the complaint.

21. Denies each and every allegation contained in paragraph 21 of the complaint, except admits that in 1960 Xerox entered into an agreement with Horizons, Inc. under which certain United States and foreign patents and patent applications relating to xerography were assigned to Xerox, and Horizons, for a period of time thereafter, performed xerographic research exclusively for Xerox. (Reference to the agreement is necessary for its precise terms.)

22. Denies each and every allegation contained in paragraph 22 of the complaint, except admits that Xerox obtained access to certain patented and unpatented xerographic technology developed by other companies under various types of agreements including license, cross license and consulting agreements. (Reference to the agreements are necessary for their precise terms.)

23. Denies each and every allegation contained in paragraph 23 of the complaint, except admits that by the end of 1961 the four Carlson patents referred to in paragraph 16 had expired, Xerox owned about 1,000 United States and foreign xerographic patents and patent applications and Xerox had obtained contingent rights to certain future research and development by Battelle, Horizons and others. (Reference to the agreements are necessary for their precise terms.)

24. Denies each and every allegation contained in paragraph 24 of the complaint.

25. Denies each and every allegation contained in paragraph 25 of the complaint.

26. Denies each and every allegation contained in paragraph 26 of the complaint.

27. Denies each and every allegation contained in paragraph 27(a) of the complaint; denies each and every allegation contained in paragraph 27(b) of the complaint, except admits the facts admitted in paragraphs 20 through 23 of this answer; denies each and every allegation contained in paragraph 27(c) of the complaint; denies each and every allegation contained in paragraph 27(d) of the complaint, except admits that until 1970 Xerox entered into agreements with research, scientific and technical employees whereby they agreed for a period following termination of their employment with Xerox not to engage in xerographic activities; denies each and every allegation contained in paragraph 27(e) of the complaint; denies each and every allegation contained in paragraph 27(f) of the complaint, except admits that since 1961 Xerox has expanded its xerographic research and development facilities and activities and the number of professional and skilled employees engaged in those activities; denies each and every allegation contained in paragraph 27(g) of the complaint; denies each and every allegation contained in paragraph 27(h) of the complaint; denies each and every allegation contained in paragraph 27(i) of the complaint; denies each and every allegation contained in paragraph 27(j) of the complaint; denies each and every allegation contained in paragraph 27(k) of the complaint, except admits that Xerox entered into certain license agreements under xerographic patents under which the licensee received from Xerox rights with respect to defined fields not including the manufacture or marketing of plain paper office copiers; denies each and every allegation contained in paragraph 27(l) of the complaint; denies

each and every allegation contained in paragraph 27(m) of the complaint; denies each and every allegation contained in paragraph 27(n) of the complaint, except admits that Xerox did not grant requests by SCM and certain others for patent licenses with respect to plain paper office copying prior to 1970, but in 1970 Xerox affirmatively offered such licenses under certain of its patents; denies each and every allegation contained in paragraph 27(o) of the complaint; denies each and every allegation contained in paragraph 27(p) of the complaint, except admits that Xerox threatened to institute and instituted certain patent infringement suits to vindicate its patent rights against infringing competitors, including SCM; denies each and every allegation contained in paragraph 27(q) of the complaint; denies each and every allegation contained in paragraph 27(r) of the complaint, except admits that since 1965 Xerox has developed and manufactured new and improved models of plain paper office copiers using technology developed by Xerox and has continued to use technology developed at Battelle, Horizons and elsewhere; denies each and every allegation contained in paragraph 27(s) of the complaint, except admits that Xerox has expanded its manufacturing and marketing facilities, personnel, capabilities, and product line since 1961; denies each and every allegation contained in paragraph 27(t) of the complaint.

28. Denies each and every allegation contained in paragraph 28 of the complaint.

29. Denies each and every allegation contained in paragraph 29 of the complaint.

30. Denies each and every allegation contained in paragraph 30 of the complaint.

31. Denies each and every allegation contained in paragraph 31 of the complaint.

32. Denies each and every allegation contained in paragraph 32 of the complaint.

33. Denies each and every allegation contained in paragraph 33 of the complaint.

34. Denies each and every allegation contained in paragraph 34 of the complaint.

35. Denies each and every allegation contained in paragraph 35 of the complaint.

36. Denies each and every allegation contained in paragraph 36 of the complaint.

37. Denies each and every allegation contained in paragraph 37 of the complaint.

38. Denies each and every allegation contained in paragraph 38 of the complaint.

39. Denies each and every allegation contained in paragraph 39 of the complaint.

40. Denies each and every allegation contained in paragraph 40 of the complaint.

41. Denies each and every allegation contained in paragraph 41 of the complaint.

42. Denies each and every allegation contained in paragraph 42 of the complaint.

43. Denies each and every allegation contained in paragraph 43 of the complaint.

44. Denies each and every allegation contained in paragraph 44 of the complaint.

45. Denies each and every allegation contained in paragraph 45 of the complaint.

46. Denies each and every allegation contained in paragraph 46 of the complaint.

47. Denies each and every allegation contained in paragraph 47 of the complaint.

48. Denies each and every allegation contained in paragraph 48 of the complaint.

49. Denies each and every allegation contained in paragraph 49 of the complaint.

50. Denies each and every allegation contained in paragraph 50 of the complaint.

51. Denies each and every allegation contained in paragraph 51 of the complaint.

52. Denies each and every allegation contained in paragraph 52 of the complaint.

53. Denies each and every allegation contained in paragraph 53 of the complaint.

54. Denies each and every allegation contained in paragraph 54 of the complaint.

55. Denies each and every allegation contained in paragraph 55 of the complaint.

56. Repeats and realleges the allegations of paragraphs 6 to 29 of this answer.

57. Denies each and every allegation contained in paragraph 57 of the complaint.

58. Denies each and every allegation contained in paragraph 58 of the complaint.

59. Denies each and every allegation contained in paragraph 59 of the complaint.

60. Denies each and every allegation of paragraph 60 of the complaint, except admits that on February 11, 1964, U.S. Patent 3,121,006, entitled "Photo-Active

Member for Xerography" (the Middleton-Reynolds '006 patent), was issued and that Xerox owns said patent.

61. Denies each and every allegation contained in paragraph 61 of the complaint, except admits that SCM and Xerox entered into an agreement dated June 3, 1968, providing for a license to SCM, for specified royalties, to make, use and sell coated paper and equipment for making xerographic coated paper copies for use in the process of the Middleton-Reynolds '006 patent, with license rights also under other patents owned or controlled by Xerox as were directly necessary to enjoyment of the foregoing rights (all as defined in the agreement). (Reference to the agreement is necessary for its precise terms.)

62. Admits the allegations of the first sentence of paragraph 62 of the complaint and denies each and every allegation contained in the second sentence of paragraph 62 of the complaint, except admits that SCM and Xerox entered into an agreement dated April 6, 1964, providing for a license to SCM, for specified royalties, to make, use and sell coated paper and equipment for making xerographic copies under patents owned or controlled by Xerox in the Western Hemisphere, including the Middleton-Reynolds '006 patent (all as defined in the agreement). (Reference to the agreement is necessary for its precise terms.)

63. Admits the allegations contained in the first sentence of paragraph 63 of the complaint; denies each and every allegation of the second sentence of the complaint, except admits that SCM paid royalties to Xerox

under the April 6, 1964 and June 3, 1968 agreements in the total amount of $639,192.62.

64. Denies each and every allegation of paragraph 64 of the complaint, except admits that Xerox maintains that the manufacture and sale by SCM of coated paper office copiers and coated paper since 1962, but for a license from Xerox during part of that period, infringed, contributorily infringed and/or induced infringement of the Middleton-Reynolds '006 patent and for the part of that period during which SCM was unlicensed Xerox would be entitled to injunctive and damages relief in a suit for such infringement, and that the agreement of June 3, 1968 remained in effect until about November 30, 1971 and Xerox did not, prior to this date, commence any action against SCM for breach of contract or for infringement.

65. Denies each and every allegation contained in paragraph 65 of the complaint.

66. Denies each and every allegation contained in paragraph 66 of the complaint.

67. Denies each and every allegation contained in paragraph 67 of the complaint.

68. Denies each and every allegation contained in paragraph 68 of the complaint.

FIRST AFFIRMATIVE DEFENSE

69. The claims alleged in the complaint are barred, in whole or in part, by the applicable statutes of limitations.

SECOND AFFIRMATIVE DEFENSE

70. SCM is estopped, in whole or in part, by reason of laches from asserting the claims alleged in the complaint.

FIRST COUNTERCLAIM

For its first counterclaim against the plaintiff, Xerox alleges:

71. This Court has jurisdiction of this counterclaim pursuant to Rule 13 of the Federal Rules of Civil Procedure.

72. Effective January 1, 1968, SCM and Xerox entered into a license agreement (hereinafter "the 1968 agreement").

73. Effective about November 30, 1971 the 1968 agreement terminated pursuant to the terms thereof.

74. SCM is now and has been obligated to pay royalties to Xerox for SCM's activities under the 1968 agreement prior to its termination in accordance with the provisions of said agreement.

75. Since about May 1, 1970 and continuously thereafter, SCM has failed to perform the obligations and duties required by the 1968 agreement in that SCM has failed to pay to Xerox royalties due and owing under said agreement for SCM's activities during the period of about January 1, 1970 through November 30, 1971.

76. SCM is now and has been obligated to render written reports to Xerox concerning its activities under the 1968 agreement prior to its termination in accordance with the provisions of said agreement.

77. Since about May 1, 1970 and continuously thereafter, SCM has failed to perform the obligations and duties required by the 1968 agreement in that SCM has

failed to render the written reports covering its activities during the period of about January 1, 1970 through November 30, 1971 as required by the 1968 agreement.

78. SCM has refused to pay the aforesaid royalties or to render the aforesaid reports.

79. Xerox has been damaged by the acts of SCM and by SCM's failure to perform the aforesaid obligations and duties under the 1968 agreement.

SECOND COUNTERCLAIM

For its second counterclaim against the plaintiff, Xerox alleges:

80. Repeats and realleges the allegations of Paragraphs 71 to 79 of Xerox' First Counterclaim.

81. This is a Counterclaim for patent infringement arising under the Patent Laws of the United States. This Court has jurisdiction pursuant to Rule 13 of the Federal Rules of Civil Procedure.

82. On or about February 11, 1964 U.S. Letters Patent 3,121,006 was duly and legally issued. Xerox is now the owner of said Letters Patent and has been the owner thereof since its date of issuance.

83. Since about December 1, 1971, SCM has infringed, contributorily infringed and/or induced others to infringe the aforesaid Letters Patent 3,121,006 by making, using, selling, and/or leasing within the United States copiers and/or duplicators and special coated paper therefor, for use in the invention of said Letters Patent, and

SCM will continue to do so to the irreparable damage and loss of Xerox unless enjoined by this Court.

84. SCM's infringement of the aforesaid patent has been willful, wanton and deliberate.

THIRD COUNTERCLAIM

For its third counterclaim against the plaintiff, Xerox alleges:

85. Repeats and realleges the allegations of Paragraphs 71 to 84 of Xerox' First and Second Counterclaims, as though fully set forth herein.

86. This is a Counterclaim for patent infringement arising under the Patent Laws of the United States. This Court has jurisdiction pursuant to Rule 13 of the Federal Rules of Civil Procedure.

87. On about June 27, 1972 U.S. Letters Patent 3,672,884 was duly and legally issued. Xerox is now the owner of said Letters Patent and has been the owner thereof since its date of issuance.

88. SCM has infringed, contributorily infringed, and/or induced others to infringe the aforesaid Letters Patent 3,672,884 by making, using, selling and/or leasing within the United States copiers and/or duplicators and liquid developer therefor for use in the invention of said Letters Patent and SCM will continue to do so to the irreparable damage and loss of Xerox unless enjoined by this Court.

89. SCM's infringement of the aforesaid patent has been willful, wanton and deliberate.

WHEREFORE, Xerox prays that this Court enter a judgment and decree:

1. Dismissing SCM's complaint and all claims therein.

2. Ordering SCM to render to Xerox the written reports required by the 1968 agreement.

3. Awarding Xerox an accounting under its First Counterclaim, and that upon such accounting Xerox have judgment against SCM for the amounts found due and owing from SCM to Xerox thereby, together with legal interest from the date of the accrual of such amounts.

4. Permanently enjoining SCM, its officers, agents, servants, employees and those persons in active concert or participation with SCM, from infringing the Xerox patents referred to in Xerox' Second and Third Counterclaims.

5. Awarding Xerox damages resulting from SCM's willful, wanton and deliberate infringement of the Xerox patents referred to in Xerox' Second and Third Counterclaims, and that said damages be trebled.

6. Awarding Xerox its costs herein and reasonable attorney's fees.

7. Granting Xerox such other and further relief as the Court may deem proper.

Dated: November 12, 1973

CUMMINGS & LOCKWOOD
1 Atlantic Street
Stamford, Connecticut 06904

By_____
A Member of the Firm

KAYE, SCHOLER, FIERMAN, HAYS & HANDLER
425 Park Avenue
New York, New York 10022

KENYON & KENYON REILLY CARR & CHAPIN
59 Maiden Lane
New York, New York 10038

JOHN R. MURPHY, ESQ.
Xerox Corporation
Stamford, Connecticut 06904

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION,	x	
		Civil No. 15807
Plaintiff,	x	
-against-	x	DEMAND FOR JURY TRIAL
XEROX CORPORATION,	x	
Defendant.	x	

S I R S:

PLEASE TAKE NOTICE that defendant demands trial by jury in this action.

Dated: November 12, 1973

CUMMINGS & LOCKWOOD
1 Atlantic Street
Stamford, Connecticut 06904

By _____
A Member of the Firm

KAYE, SCHOLER, FIERMAN, HAYS & HANDLER
425 Park Avenue
New York, New York 10022

KENYON & KENYON REILLY CARR & CHAPIN
59 Maiden Lane
New York, New York 10038

JOHN R. MURPHY, ESQ.
Xerox Corporation
Stamford, Connecticut 06904

TO: Proskauer Rose Goetz & Mendelsohn
300 Park Avenue
New York, New York 10022

Widett & Widett
100 Federal Street
Boston, Massachusetts 02110

Jacobs, Jacobs & Grudberg
207 Orange Street
New Haven, Connecticut

UNITED STATES DISTRICT COURT

For The District Of Connecticut

SCM CORPORATION, Plaintiff,	:	
against	:	Civil No. 15807
XEROX CORPORATION, Defendant.	:	

SECOND AMENDED AND SUPPLEMENTAL COMPLAINT

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UNITED STATES DISTRICT COURT

For The District Of Connecticut

SCM CORPORATION,	:	
Plaintiff,	:	
against	:	Civil No. 15807
XEROX CORPORATION,	:	
Defendant.	:	

SECOND AMENDED AND SUPPLEMENTAL COMPLAINT

Plaintiff SCM Corporation ("SCM"), by its attorneys, for its second amended and supplemental complaint against Xerox Corporation ("Xerox"), alleges, on knowledge as to matters pertaining to itself and on information and belief as to all other matters, as follows:

Jurisdiction, Venue and the Parties.

1. This action concerns the acts and practices of Xerox and their effects by which, in interstate and American foreign commerce:

(a) Xerox has, in violation of Section 2 of the Sherman Act (15 U.S.C. §2), monopolized and attempted and conspired to monopolize the skill and technology and manufacture and marketing of plain paper office copiers;

(b) Xerox has, in violation of Section 1 of the Sherman Act (15 U.S.C. §1), unreasonably restrained trade and commerce in the skill and technology and manufacture and marketing of plain paper office copiers through the means of acquisition agreements, exclusive dealing agreements, cross-licenses, grantback agreements, joint ventures, restrictive employment agreements, and other contracts, agreements, conspiracies and combinations; and

(c) Xerox has, in violation of Section 7 of the Clayton Act (15 U.S.C. §18), made acquisitions of patented and unpatented technology, other assets and stock, having the probable effect of substantially lessening competition or tending to create a monopoly in the skill and technology and manufacture and marketing of plain paper office copiers.

2. This Court has jurisdiction of this action to adjudicate SCM's claims for injunctive relief and damages under Sections 4 and 16 of the Clayton Act (15 U.S.C. §§15 and 26), in that, by reason of Xerox's violations of Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act, SCM has been injured in its business or property and continues to suffer irreparable injury.

3. The acts and practices of Xerox alleged in

this complaint have been committed in interstate commerce and in American foreign commerce.

4. Venue is properly in this district under Section 12 of the Clayton Act (15 U.S.C. §22) because Xerox is found and transacts business and its executive offices are located within this judicial district.

5. Xerox and SCM are corporations organized and existing under the laws of the State of New York. Xerox is engaged in the manufacture and marketing of plain paper office copiers. SCM is engaged in the manufacture and marketing of coated paper office copiers and has attempted and is attempting to develop and market plain paper office copiers. SCM intends, starting in 1976, to market a model of a plain paper office copier presently being developed by it. Since January, 1974, SCM has been marketing a plain paper office copier which it purchases from another company.

SCM's FIRST CLAIM: FOR PROSPECTIVE INJUNCTIVE RELIEF AGAINST XEROX'S MONOPOLISTIC AND ANTICOMPETITIVE ACTS AND PRACTICES

Xerox's Monopoly Position With Respect to the Skill, Technology, Manufacture and Marketing of Plain Paper Office Copiers:

6. Plain paper office copiers are office machines

which conveniently and cleanly produce copies of documents on plain or bond paper without the use of stencils, spirit or offset masters.

7. Generally, users of office copiers strongly prefer plain paper office copiers to coated paper office copiers (office machines which make copies on specially treated and chemically coated paper), because of the better appearance, weight, usability and other features of plain or bond paper copies.

8. The only commercial means ever known to manufacture plain paper office copiers is through the use of xerography. "Xerography" is the name given in 1948 by Battelle Memorial Institute Inc. or Battelle Development Corporation (both collectively referred to as "Battelle") to the copying of documents by electrostatic means, regardless of whether producing copies of documents on plain paper or on specially treated and chemically coated paper or on other materials. It is the name used since 1948 by Xerox (then known as Haloid), and used in this complaint, to refer to such copying by electrostatic means.

9. The skill and technology of plain paper office copying is a specific and identifiable usage of xerography, which can be, and which Xerox has, segregated apart from

other usages of xerography. It is an indispensable element in the manufacture of plain paper office copiers; and, without exception, it has been used in the manufacture of all plain paper office copiers ever manufactured by Xerox and anyone else.

10. The skill and technology of plain paper office copying, the manufacture of plain paper office copiers, and the marketing of plain paper office copiers are each a separate "part of trade or commerce" and "line of commerce" under Section 2 of the Sherman Act and Section 7 of the Clayton Act, respectively, and involve a substantial amount of "trade or commerce" under Section 1 of the Sherman Act.

11. From 1960 (when Xerox introduced its first plain paper office copier) until 1970, Xerox was the sole manufacturer and marketer of plain paper office copiers. Since 1970 other companies have marketed plain paper office copiers, but their competitive impact has been and continues to be minimal. Since 1970 Xerox's market share of the businesses of manufacturing and marketing plain paper office copiers has been more than 95%.

12. Xerox's annual revenues from all of its plain paper office copying activities rose from less than $4 million in 1960 to more than $1.9 billion in 1972, and its

annual total profits before taxes from those activities rose from less than $1 million in 1960 to about $550 million in 1972. Its total profits before taxes from those activities in the period 1960-1972 amounted to more than $2.7 billion, of which $1.7 billion was earned in the period 1960-1970, and of which about $1 billion was earned in the two years of 1971 and 1972.

13. Xerox's monopolistic position and power with respect to the manufacture and marketing of plain paper office copiers and the extraordinary growth in its revenues and profits from those activities, resulted from its monopolization and exclusionary exploitation of the skill and technology of plain paper office copying, including the xerographic patents which it has owned and controlled.

14. Such monopolization was attained by 1961 or no later than 1963 as a direct and intended result of the adoption and implementation by Xerox of its policies of acquiring ownership, control and use of patented and unpatented skill and technology of plain paper office copying developed and owned by others, and by its exclusionary exploitation of such skill and technology, all as more fully alleged in paragraphs 16 to 25.

15. On that foundation of acquired monopoly power, and as the result of the continuing implementation of [illegible] policies, since 1961 Xerox's monopolization of the skill and technology and the manufacture and marketing of plain paper office copiers has been maintained and enlarged by: acquisition and aggregation of additional patented and unpatented xerographic technology; anticompetitive acts and practices; and continuing exclusionary exploitation of all of the patented and unpatented skill and technology of plain paper office copying which it had acquired and aggregated; all as more fully alleged in paragraphs 26 and 27.

Xerox's Unlawful Acquisitions of Patents and Technology from Battelle, Horizons and Others and Its Control by 1961 of the Skill and Technology of Plain Paper Office Copying

16. Plain paper office copying, and xerography, owe their origins to four basic patents issued between 1940 and 1944 to Chester Carlson and which expired between 1957 and 1961.

17. In 1944, Battelle and Carlson entered into an agreement to attempt commercialization of the four basic Carlson patents and to engage in further research and development concerning copying of documents by xerographic means.

18. From 1947 to 1956, Xerox entered into patent license and other agreements with Battelle under which Xerox obtained exclusive worldwide rights with respect to the four basic Carlson patents, all other issued United States and foreign xerographic development and improvement patents owned or controlled by Battelle, and all other xerographic patents thereafter issued to or acquired by Battelle. Also under those agreements, Battelle carried on xerographic research and development activities exclusively for Xerox.

19. In 1956, Xerox and Battelle entered into another agreement under which Xerox purchased and acquired exclusive United States and worldwide ownership and control of all of the patented and unpatented skill and technology in the field of xerography which Battelle had developed by that time, and which it has developed during the 17 years since that time. Under that agreement, Xerox also has the continuing option to acquire exclusive ownership of all patented and unpatented xerographic technology hereafter developed by Battelle.

20. Since 1956 Battelle has engaged and continues to engage in xerographic research and development activities exclusively for Xerox.

21. In 1960, Xerox entered into agreements with Horizons, Inc. under which Xerox purchased a number of xerographic United States and foreign patents and patent applications. Since that time, and also pursuant to those agreements, Horizons has engaged in xerographic research for Xerox's sole and exclusive benefit and use.

22. Prior and subsequent to 1960, Xerox obtained access to and use of other patented and unpatented xerographic technology developed and owned by numerous other companies by entering into various acquisition, exclusive, cross-license, grantback and other agreements. Those agreements were made by Xerox pursuant to its policies of excluding others from practicing the skill and technology of plain paper office copying; of allowing and licensing others to use xerographic technology for designated purposes so long as they did not include plain paper office copying; and of further enlarging its own unrestricted rights in and access to patented and unpatented xerographic technology developed by others.

23. As a result of the agreements with Battelle, Horizons and numerous others, by 1961, by which year the last of the four basic Carlson patents had expired, Xerox had acquired and aggregated ownership of about 1,000

United States and foreign xerographic patents and patent applications. Xerox had also assured itself exclusive and other contractual rights to future innovative xerographic development by Battelle, Horizons and others.

24. By 1961 and in any event no later than 1963, Xerox had acquired and aggregated a patent thicket of xerographic patents and patent applications which excluded and prevented SCM and other potential competitors from engaging in the manufacture of plain office copiers. By such times, Xerox had:

(a) re-established a patent structure with respect to xerography and plain paper office copying which afforded it protection almost equalling that which it possessed during the period of basic patent coverage;

(b) recreated a powerful patent structure which assured it the right to proceed with its own programs in plain paper office copying without much likelihood of being blocked by others, while giving it the power to exclude and block potential competitors from entry into the businesses of manufacturing and marketing plain paper office copiers; and

(c) ensured that no one else could engage in the manufacture or marketing of plain paper office copiers without patent licensing by Xerox.

25. By 1961 or no later than 1963, Xerox had acquired and achieved worldwide control and monopoly power over the patented and unpatented skill and technology of plain paper office copying, which it would be in a position to exploit for many years to come, and which gave it the monopolist's powers to:

(a) regiment the entire businesses of manufacturing and marketing plain paper office copiers;

(b) perpetuate its control over those businesses long after the basic patents had expired;

(c) funnel systematically the fruits of invention of an entire technological field of endeavor into its own hands;

(d) exclude competitors and suppress and restrain any potential or actual competition in the manufacture and marketing of plain paper office copiers; and

(e) perfect and enlarge an industrial monopoly with respect to those businesses.

Since 1961, Xerox Has Unlawfully Exercised, Maintained and Enlarged Its Acquired Monopoly Power and Unlawfully Restrained Competition With Respect to the Skill, Technology, Manufacture and Marketing of Plain Paper Office Copiers.

26. On the foundation of the monopoly and anti-competitive power it had acquired and achieved with re-

spect to the skill and technology of plain paper office copying as alleged above, Xerox has exercised that power since 1961 (and in some respects prior to that time), by engaging in the acts and practices alleged below in paragraph 27. Those acts and practices have had the actual and probable effects (whether or not intended by Xerox) with respect to the skill, technology, manufacture and marketing of plain paper office copiers, of suppressing, foreclosing and restraining competition by SCM and others; of creating, maintaining and increasing the number, scope and impact of barriers to entry and effective competition; and of maintaining and increasing the size and scope of Xerox's monopoly.

27. The acts and practices of Xerox since 1961 (and in some respects prior to that time), include, among others:

(a) continuing its exclusionary exploitation of the patented and unpatented skill and technology of plain paper office copying which it had acquired and aggregated, purposefully to exclude and restrain competition while it carried on and enlarged all of its own plain paper office copier activities;

(b) continuing to acquire, under exclusive, restrictive and other agreements, the patented and unpatented

xerographic skill and technology developed by Battelle, Horizons and others;

(c) acquiring other companies to obtain their xerographic technology and the services of their scientific or technical personnel;

(d) requiring its research, scientific and technical personnel, and since 1970 its managerial and professional personnel, to execute written restrictive agreements preventing or restraining them from engaging in xerographic activities for any other company following termination of employment with Xerox;

(e) perpetuating its exclusive control over the services of most of the scientific and technical personnel possessing skill or experience in xerography, and building a technical community under its exclusive control which by 1972 included about 95% of the world's personnel proficient in xerography;

(f) enormously expanding its xerographic research and development facilities and activities and the number of professional and skilled employees engaged in those activities;

(g) implementing a policy of concealing unpatented xerographic skill and technology;

(h) implementing a policy of prosecuting

many patent applications and obtaining many patents, solely for the purpose of excluding and restraining plain paper office copier competition by, among other things:

(i) re-establishing the patent protection afforded by expiring patents;

(ii) securing ownership or control of "blocking patents";

(iii) further enlarging the patent thicket of xerographic patents which it possessed by 1961, and which presently consists of more than 1600 unexpired United States patents, more than 200 pending United States patent applications and many thousands of foreign patents and patent applications;

(iv) increasing the difficulty and expense to others in attempting to design around those patents; and

(v) increasing the difficulty and risk to others in attempting to manufacture plain paper office copiers without infringement of those patents;

(i) using only a small fraction of its patented inventions and the inventions covered in its patent applications in the plain paper office copiers it has manufactured and the copiers which it is presently developing,

with the balance of the many patented inventions which it has not used having the effect of "blocking patents";

(j) refusing to identify the patented inventions it claims to use in each of its plain paper office copiers despite its undertaking to do so as set forth on legends it has affixed to those copiers ("Manufactured Under One or More U.S. Patents Owned or Controlled by Xerox Corporation--List Supplied on Request"), for the purpose of preventing others from determining which aspects of its plain paper office copiers Xerox claims are not in the public domain and which aspects of such copiers are in the public domain;

(k) entering into and maintaining in force various restrictive patent license agreements whereby Xerox licensees have been permitted to use patented xerographic technology only so long as the technology was not used in connection with the manufacture or marketing of plain paper office copiers;

(l) asserting that its patents gave it exclusive control over the manufacture of plain paper office copiers and that it was thereby impossible for anyone else, absent a license from Xerox, to manufacture such copiers without infringing some of those patents;

(m) falsely asserting to SCM and others that it would give serious consideration to their requests for patent licenses with respect to plain paper office copying, when in fact it had no intention of giving any such requests any consideration;

(n) repeatedly refusing to grant the requests by SCM and others for patent licenses with respect to plain paper office copying, and refusing until late 1970 to offer any plain paper office copying patent licenses;

(o) in late 1970, and 1973, making only meaningless and illusory offers to SCM and others of patent licenses at unreasonably high royalty rates with respect to three, and then four of its xerographic patents, all of which had been acquired from Battelle or Horizons and all of which embodied old technology, and in each instance without offering any protection against any infringement action it might bring based on its many other patents;

(p) threatening and maintaining burdensome patent infringement litigation against manufacturers and marketers of coated paper office copying products using xerographic means, and against actual and potential plain paper office copier competitors, including SCM;

(q) developing and manufacturing the models of plain paper office copiers it introduced between 1960 and

1965 by primarily using patented and unpatented technology acquired from Battelle, Horizons and others;

(r) developing and manufacturing the many new and improved models of plain paper office copiers it has introduced since 1965, and developing the new and improved models it presently plans to introduce and manufacture in the future by continuing to use patented and unpatented technology acquired from Battelle, Horizons and others, together with additional technology it has aggregated as the result of its own activities;

(s) greatly expanding its manufacturing and marketing facilities, personnel and capabilities, and greatly expanding its multiple product line during the many years it sheltered itself from any plain paper office copier competition and the few recent years when it has faced only minimal competition;

(t) effectuating, maintaining and enlarging since 1956 the worldwide cartelization and control over the skill and technology of plain paper office copying and the manufacture and marketing of plain paper office copiers, by agreements and a continuing combination and conspiracy with the Rank Organisation, Ltd., Rank-Xerox, Ltd., Fuji Photo Film Co., Ltd. of Japan and Fuji-Xerox, Ltd., pursuant to which, among other things:

(i) a worldwide division of exclusive territories was effectuated among Xerox, Rank-Xerox and Fuji-Xerox, excluding and restraining potential American competitors such as SCM from attempting to manufacture and market plain paper office copiers throughout the world;

(ii) Xerox contributed to Rank-Xerox and Fuji-Xerox the patents and technical know-how which has enabled them to manufacture and sell plain paper office copiers, a contribution which constituted the export in American foreign commerce of American-owned technological assets;

(iii) Xerox and Rank-Xerox obtained access to and use of xerographic technology developed by Fuji-Xerox;

(iv) Xerox acquired control of Rank-Xerox;

(v) Xerox caused Rank-Xerox to cancel, and Savin Business Machines Corp. to surrender, the patent license which Rank-Xerox had previously granted Savin with respect to plain paper office copying as a condition to the granting by Xerox to Savin of a United States patent license for coated paper office copying by xerographic means;

(vi) Xerox restrained Rank-Xerox from granting plain paper office copying patent licenses to others in Rank-Xerox's territories; restrained Rank-Xerox in 1974

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from granting a plain paper office copying patent license to SCM in Rank-Xerox's territories at a fair and reasonable royalty and on fair and reasonable terms; and restrained Fuji-Xerox in 1974 from entering into any arrangement with SCM regarding a certain unique plain paper office copier of Fuji-Xerox's, its model 2200, which by the aforesaid agreements, combination and conspiracy is marketed only in Fuji-Xerox's territories;

(vii) Xerox and Rank-Xerox threatened and maintained burdensome patent infringement litigation with respect to the manufacture of plain paper office copiers by others in foreign countries; and

(viii) Xerox realized hundreds of millions of dollars of profits.

The Unlawful Effects of Xerox's Acts and Practices and Violations of Law.

28. The unlawful monopolistic and anticompetitive effects of Xerox's acts and practices as alleged in this complaint have been and are, among other things, that:

(a) Xerox acquired, and thereafter exercised, monopolistic and anticompetitive power with respect to the skill and technology and the manufacture and marketing of plain paper office copiers;

(b) Xerox excluded and restrained potential competitors including SCM from engaging in the manufacture and marketing of plain paper office copiers;

(c) Xerox faced no plain paper office copier competition from 1960 to 1970 and it has faced only minimal plain paper office copier competition since 1970;

(d) Xerox has exercised its ability to determine and control the pace and direction of scientific inquiry and endeavor in xerography and the skill and technology of plain paper office copying, in large part free from the influence of the competitive efforts of others;

(e) research and development by others with respect to the skill and technology and the manufacture of plain paper office copiers has been restrained;

(f) Xerox has excluded, restrained and hampered potential and actual competitors from seeking to compete for and to obtain the benefits of the services of most of the world's personnel who have technical competence and experience in xerography;

(g) Xerox has preserved and enlarged its technological lead, its development, engineering and manufacturing lead, its marketing lead, and its monopolistic, manufacturing and marketing power with respect to plain paper office copiers;

(h) potential and actual plain paper office copier competitors face the risk of early obsolescence of their copiers;

(i) Xerox has assured itself of the patronage for many years to come of most users of plain paper office copiers;

(j) Xerox has secured the many advantages of a multi-billion dollar business organization having new and extensive research, manufacturing and marketing facilities; widespread customer acceptance of its plain paper office copier products; highly developed customer connections; large numbers of skilled and experienced personnel; and great research, manufacturing and marketing power; and such advantages are great barriers to competition and competitive entry; and

(k) Xerox has excluded and restrained American foreign commerce with respect to the skill and technology and manufacture and marketing of plain paper office copiers; and has excluded and restrained the export of American-manufactured plain paper office copiers by others to foreign countries throughout the world.

29. Even if all the patents acquired and aggregated by Xerox were validly issued, Xerox's acts and practices and their effects as alleged in this complaint:

(a) violate Section 2 of the Sherman Act, since by reason of those acts and practices, Xerox has monopolized and attempted and conspired to monopolize interstate and American foreign commerce in the skill and technology and the manufacture and marketing of plain paper office copiers;

(b) violate Section 1 of the Sherman Act to the extent that such acts and practices have involved agreements, contracts, conspiracies or combinations, which have unreasonably restrained trade or commerce by excluding and restraining competitors and potential competitors in interstate and American foreign commerce from gaining access to and use of the skill and technology of plain paper office copying and by excluding and restraining competition with respect to the manufacture and marketing of plain paper office copiers; and

(c) violate Section 7 of the Clayton Act to the extent such acts and practices have involved the acquisition or purchase of patented and unpatented technology, other assets and stock, since their probable effects have been substantially to lessen competition or tend to create a monopoly in interstate and American foreign commerce with respect to the skill and technology and the manufacture and marketing of plain paper office copiers.

30. Unless Xerox's acts and practices as alleged in this complaint are declared to be against public policy and illegal, and unless they are enjoined and far-reaching remedial injunctive relief is granted, so that the effects of such policies and acts and practices are dissipated and nullified during the pendency of this action and permanently:

(a) SCM and other potential and actual plain paper office copier competitors will continue to be irreparably injured;

(b) the hundreds of thousands of users of plain paper office copiers (including state and federal governmental agencies, business and professional organizations, and educational and charitable institutions), and the public, will be deprived of the benefits of competition and will continue to bear the burden of Xerox's anticompetitive and monopolistic acts and practices;

(c) plain paper office copier competition will continue to be restrained and the establishment of full and fair competition will be prevented.

Relief With Respect to SCM's First Claim.

A. Permanent Relief

31. The Court should declare that Xerox's acts and practices alleged in this First Claim are illegal and against

public policy and that as alleged in paragraph 29, they violate Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act.

32. After adjudication of Xerox's violations of law, and after consideration of the present and prospective effects of such violations, the Court should fashion and grant the necessary and appropriate remedial injunctive relief so that:

(a) full and fair competition with respect to the skill, technology, manufacture and marketing of plain paper office copiers in American interstate and foreign commerce will be established;

(b) SCM and others will be afforded a full and fair opportunity to compete at the research, manufacturing and marketing levels;

(c) users of plain paper office copiers and the public will have the benefits of full and fair competition at each of these levels; and

(d) the present and prospective effects of Xerox's monopolistic position and anticompetitive acts and practices will be effectively and permanently eliminated.

33. The remedial injunctive relief required to achieve those objectives must necessarily be fashioned and

granted in light of the facts as they exist after the adjudication of Xerox's violations of law. Because of the continuing and prospective irreparable injury to SCM, other potential and actual competitors, users, and the public, the summary or trial adjudication of Xerox's violations of law and SCM's prayer for preliminary injunctive relief, and the trial adjudication of the permanent relief to be granted with respect to this First Claim, should be expedited to the maximum extent possible.

34. Permanent injunctive remedial relief in this action should be granted along the lines set forth in paragraphs 35 to 46, 48 and the second sentence of paragraph 49.

35. FIRST, Xerox should be required to divest itself of all of its research, patents, technical and manufacturing facilities and assets in the field of xerography. It should be required to create two or more wholly separate and independent companies, properly staffed and financed, to own and operate those facilities and assets as they may be appropriately divided. Thereafter, such new research and manufacturing companies (collectively referred to as the "New Manufacturing Companies") would carry on those activities in the field of xerography.

36. The creation of two or more such new manufacturing companies is necessary since the monolithic and monopolistic character at the research and manufacturing levels, and the effects of Xerox's anti-competitive acts and practices at those levels, will remain for a much longer period if only a single new manufacturing company were created.

37. The creation of the New Manufacturing Companies will produce competition among them at the research and manufacturing levels and more speedily negate the effects of Xerox's present position and acts at those levels.

38. For the same reasons at the marketing and service levels, Xerox's present marketing and service facilities, assets and marketing and service personnel in the field of xerography should serve as the foundation for two or more wholly independent marketing and service companies (collectively referred to as the "New Marketing Companies"), which Xerox should be required to create. They should be properly staffed and financed, to own and operate those facilities and assets as may most appropriately be divided. The New Marketing Companies should be enjoined, as may be appropriate, from engaging in any anticompetitive marketing practices.

39. SECOND, the New Manufacturing Companies should be required for a period of ten years:

(a) on a royalty-free basis (or on a non-discriminatory reasonable royalty basis if the Court so determines), to grant to SCM and other potential and actual competitors and among themselves, non-exclusive licenses to practice for the life of each patent, all of the claims contained in the United States and foreign patents and patent applications owned or controlled by them during that period;

(b) on a reasonable basis to furnish SCM and other potential and actual competitors with other technical information and assistance with respect to the manufacture of plain paper office copiers as may be necessary and reasonably requested;

(c) on a reasonable method of allocation as determined by the Court, to make available for sale to qualified marketers, as the Court determines, the various models of plain paper office copiers, and replacement parts, which they manufacture; and

(d) to make these sales at reasonable prices based on a formula as determined by the Court which provides the New Manufacturing Companies with a reasonable profit in relation to cost.

40. THIRD, the New Manufacturing Companies should be enjoined for a period of ten years from engaging in any marketing activities with respect to plain paper office copiers other than those described in subparagraphs 39(c) and (d).

41. FOURTH, the New Marketing Companies should be enjoined for a period of ten years with respect to plain paper office copying from engaging in any research or manufacturing; and for a period of at least five years from expanding any of Xerox's present marketing and service facilities and the present number of its personnel engaged in those activities.

42. FIFTH, Xerox should be required to disclose to SCM and other potential and actual competitors its confidentially-maintained unpatented technology relating to plain paper office copying and its then existing short and long range plans for the manufacture and marketing of plain paper office copiers.

43. SIXTH, all agreements by Xerox with any third parties which are presently in effect, under which Xerox obtains or possesses the right to obtain patents, patent applications or technical information in the field of xerography, should be declared illegal and of no further force and effect.

The New Manufacturing Companies should be enjoined for a period of ten years from entering into any exclusive agreement with any third party, under which such new companies would obtain exclusive ownership or control over any such assets or rights.

44. SEVENTH, all agreements by Xerox with Rank-Xerox, Fuji-Xerox and any of their subsidiaries or affiliates, under which the rights to foreign patents, patent applications and other xerographic technology have been or will be licensed or assigned, should be declared illegal and of no further force and effect. The New Manufacturing Companies should be enjoined for a period of ten years from entering into any agreement with those companies under which they obtain any exclusive rights with respect to any foreign patents or patent applications, or any technical information or assistance.

45. EIGHTH, Xerox should be required to divest itself of any stock ownership or interest in Rank-Xerox, Fuji-Xerox and any of their subsidiaries and affiliates. The New Manufacturing Companies and the New Marketing Companies should each be enjoined for a period of ten years from acquiring in whole or in part the stock of any other company engaged in activities involving the skill, technology, manu-

facture or marketing of plain paper office copiers, or from acquiring any other company's assets which are involved in, or related to, those activities. The sale of any of their assets or stock to any other company so engaged should likewise be enjoined for that period.

46. NINTH, the restrictive agreements described in subparagraph 27(d), should be declared unlawful, of no further force and effect and permanently enjoined.

47. The effects of such remedial relief will be:

(a) to enable the New Manufacturing Companies to continue Xerox's research and manufacturing at present levels and to permit the expansion of its activities and facilities in a competitive atmosphere so that continuing and increasing demands for plain paper office copiers can be competitively satisfied during the time needed for SCM and others to develop competitive research and manufacturing facilities;

(b) to create competition in the marketing of plain paper office copiers, bringing the benefits of price competition and other forms of marketing competition to users and the public;

(c) to afford SCM and others a fair opportunity to develop sufficient market shares which will stimulate

competition and justify substantial investment by SCM and others in research and manufacturing facilities and activities;

(d) to eliminate the technological, manufacturing, marketing and other leads with respect to plain paper office copiers and xerography which Xerox possesses;

(e) to eliminate the effects of Xerox's monopolistic position and its anticompetitive acts and practices with respect to plain paper office copiers; and

(f) to establish full and fair competition in American interstate and foreign commerce with respect to:

(i) the skill, technology and manufacture of plain paper office copiers; and

(ii) the marketing of such copiers.

48. The Court should retain continuing jurisdiction after entry of judgment. It can then make such modifications or amendments to its judgment as may be appropriate based on post-judgment facts, to achieve the objectives described in the preceding paragraph.

B. Preliminary Relief During the Pendency of This Action.

49. During the pendency of this action, Xerox should be enjoined from threatening, instituting or maintain-

ing any patent infringement action or claim against SCM with respect to SCM's present and future efforts to develop and market plain paper office copiers. The New Manufacturing Companies should be similarly enjoined permanently, except to the extent that SCM does not accept any patent licenses offered by such new companies on terms and conditions decreed by this Court.

50. During the pendency of this action Xerox should be enjoined or stayed, directly or indirectly, from threatening, instituting or maintaining any other action or claim here or abroad which might impede SCM's present and future efforts with respect to plain paper office copiers, or which might delay the final adjudication of this First Claim.

51. During the pendency of this action, Xerox should be mandatorily enjoined to grant SCM a license with respect to all the United States and foreign patents and patent applications it owns or controls. Upon adjudication of this First Claim, it should be determined (in accordance with subparagraph 39(a) above) whether such license should be royalty-free or whether it should bear a reasonable royalty rate; and whether and to what extent any royalty rate decreed by the Court should be applied retroactively.

52. During the pendency of this action, Xerox should be mandatorily enjoined to disclose its present short and long range plans for the manufacture and marketing of plain paper office copiers.

53. During the pendency of this action, Xerox should be enjoined against enforcing or attempting to enforce the agreements described in subparagraph 27(d).

54. The injunctive relief during the pendency of this action described in paragraphs 49 to 53 above, and such other preliminary injunctive relief as may be appropriate, should be granted because of the continuing irreparable injury inflicted by Xerox's acts and practices on SCM, other potential and actual competitors of Xerox, users of plain paper office copiers and the public generally; and the likelihood that SCM will ultimately establish the violations of law and their effects as alleged in this First Claim.

55. Such injunctive relief during the pendency of this action should be granted so that effective first steps can be taken promptly toward the establishment of full and fair competition in the skill, technology, manufacture and marketing of plain paper office copiers.

SCM's SECOND CLAIM: FOR TREBLE DAMAGES

SCM's Damages by Reason of Xerox's Unlawful Monopolization and Acts and Practices in Restraint of Trade and Competition with Respect to the Skill and Technology and Manufacture and Marketing of Plain Paper Office Copiers.

56. The allegations contained in paragraphs 6 to 29 of the First Claim are repeated and realleged.

57. Xerox's continuing unlawful monopolization, exclusive control and acts and practices in restraint of trade and competition with respect to the skill and technology and the manufacture and marketing of plain paper office copiers, caused damage to SCM because they effected high barriers against competitive entry, and because they excluded and restrained SCM in American interstate and foreign commerce:

(a) from manufacturing and marketing plain paper office copiers;

(b) from engaging in related business activities such as the rendering of service and the sale of supplies for plain paper office copiers; and

(c) from earning profits from the conduct of such business activities.

58. By reason thereof, as presently estimated by it, SCM has been damaged, in the amount of at least $145

million; and SCM shall continue to be damaged in an amount not presently known until such time as the effects of Xerox's unlawful acts and practices involved have been nullified.

59. Under 15 U.S.C. §15, SCM is entitled to three-fold the amount of at least $145 million; together with three-fold the damages suffered by it (in an amount not presently known) from this time until the nullification of the effects of Xerox's unlawful acts and practices; and together with the costs of recovering all of such damages in this action, including reasonable attorneys' fees.

SCM's THIRD CLAIM: FOR DECLARATORY, INJUNCTIVE AND DAMAGE RELIEF WITH RESPECT TO THE MIDDLETON-REYNOLDS '006 PATENT

60. On February 11, 1964, United States Patent No. 3,121,006, entitled "Photo-Active Member for Xerography" (the Middleton-Reynolds '006 patent), was issued. Xerox acquired ownership of that patent under its 1956 agreement with Battelle.

The 1968 and 1964 License Agreements Between Xerox and SCM as to Coated Paper and Coated Paper Office Copiers.

61. On June 3, 1968 SCM and Xerox entered into a patent license agreement in which, for specified royalties, and subject to a field-of-use restriction limiting the li-

cense to coated paper for use in coated paper office copiers, Xerox granted an express license to SCM with respect to the Middleton-Reynolds '006 patent and an implied license as to other Xerox patents necessary to SCM's restricted use of the '006 license rights.

62. Simultaneously with the execution of the June 3, 1968 agreement, a prior patent license agreement of April 6, 1964 between SCM and Xerox was terminated. Under that April 6, 1964 agreement, for specified royalties and subject to a field-of-use restriction limiting the license to coated paper and coated paper office copiers, Xerox granted a license to SCM with respect to all of its Western Hemisphere patents, one of which was the Middleton-Reynolds '006 patent.

63. On or about May 26, 1971, SCM gave notice in writing of its cancellation of the June 3, 1968 agreement. Until that time, SCM had paid royalties to Xerox under the April 6, 1964 and June 3, 1968 agreements in the total amount of $639,192.62.

64. It is Xerox's claim that the direct electrostatic method employing zinc oxide as a photoconductor, used since 1962 in the manufacture of coated paper office copiers and coated paper marketed by SCM, infringed the Middleton-

Reynolds '006 patent; and that absent a license from Xerox, such infringement violates Xerox's patent rights entitling it to injunctive and damage relief. Although Xerox claims that the agreement of June 3, 1968 remains in effect, it has not, as of this date, commenced any action against SCM for royalties since October 1, 1970 based upon any claim of breach of contract; nor has it commenced any action against SCM as of this time for any alleged infringement.

The Invalidity, Unenforceability and Fraudulent Procurement of the Middleton-Reynolds '006 Patent:

65. The Middleton-Reynolds '006 patent is invalid and unenforceable, and was procured by fraud and has been enforced in violation of the patent and antitrust laws because:

(a) The patent does not meet the conditions of patentability under 35 U.S.C. §§101, 102, 103 and 120 in that, among other things: (i) the claimed invention was not a new and useful process, machine, manufacture or composition of matter or a new and useful improvement thereof; (ii) the claimed invention was anticipated by or obvious in view of the prior art; (iii) Middleton and Reynolds did not themselves jointly invent the subject matter encompassed thereby; and (iv) Middleton and Reynolds abandoned the invention which they claimed to have made;

(b) The patent fails to particularly point out and distinctly claim the subject matter which Middleton and Reynolds regard as their invention;

(c) During the solicitation of the patent, recklessly or with intent to deceive, material facts were misrepresented or withheld from the Patent Office;

(d) An interference proceeding in the Patent Office was not contested when it was known that a conflict existed between claimed subject matter in the solicitation of the patent and claimed subject matter of an earlier filed and earlier issued patent;

(e) Xerox threatened and maintained patent infringement litigation against SCM and others, and extracted royalty payments from SCM and others, based on the patent, when it knew or should have known that the patent was invalid and unenforceable and had been procured by fraud as alleged in subparagraphs (a) through (d) above;

(f) Xerox licensed the patent on discriminatory, restrictive and other unlawful terms and conditions;

(g) Xerox acquired and unlawfully attempted to enforce the patent and other patents purchased by it under the 1956 Battelle agreement, as alleged in the First Claim; and

(h) Xerox imposed field-of-use restrictions

in its licenses with SCM and others of the patent and other xerographic patents which, alone or together with Xerox's other acts and practices as alleged in the First Claim, had the effect of restraining and excluding SCM and others from competing with Xerox in the manufacture and marketing of plain paper office copiers.

Relief With Respect to SCM's Third Claim.

66. Under 28 U.S.C. §2201 and the patent laws of the United States, and by reason of the existence of a case of actual controversy between the parties with respect to the matters involved, this Court should enter final judgment declaring that:

(a) the Middleton-Reynolds '006 patent is invalid and unenforceable and was procured by fraud; and

(b) under the June 3, 1968 agreement or otherwise, SCM is not obligated to pay and Xerox is not entitled to recover any further royalties or other relief with respect to any claimed breach of that agreement or any claimed infringement of the Middleton-Reynolds '006 patent.

67. SCM is entitled under 15 U.S.C. §15 to threefold the damages suffered by it by reason of Xerox's fraudulent procurement of the Middleton-Reynolds '006 patent, and its enforcement of that fraudulently procured patent against

SCM by the extraction of royalty payments in violation of Sections 1 and 2 of the Sherman Act, because such enforcement has had the effect of unreasonably restraining or of monopolizing or attempting to monopolize the manufacture and marketing of coated paper office copiers and coated paper. SCM should recover from Xerox threefold the amount of at least $612,116.97 of the royalties paid by SCM to Xerox, together with the costs of obtaining such judgment, including reasonable attorneys' fees.

68. Xerox should be permanently enjoined from enforcing the Middleton-Reynolds '006 patent.

SCM'S FOURTH CLAIM: FOR TREBLE DAMAGES AND INJUNCTIVE RELIEF WITH RESPECT TO PLAIN PAPER OFFICE COPIERS MARKETED BY SCM

69. This Fourth Claim concerns the marketing acts and practices of Xerox, and their effects, by reason of which, in interstate commerce and in American foreign commerce:

(a) Xerox has, in violation of Section 1 of the Sherman Act (15 U.S.C. §1), unreasonably restrained the efforts of SCM and other companies engaged in the marketing of plain paper office copiers to market their copiers and related supplies and service in competition with Xerox;

(b) Xerox has, in violation of Section 2 of the Sherman Act (15 U.S.C. §2), unlawfully exercised

its monopoly power and monopolized, and attempted and conspired to monopolize, the marketing of plain paper office copiers and related supplies and service, causing injury to SCM and others engaged in marketing such copiers, supplies and service; and

(c) Xerox has, in violation of Section 3 of the Clayton Act (15 U.S.C. §14), engaged in exclusive dealing and tying arrangements, which have had the probable effect of substantially lessening competition or tending to create a monopoly in the marketing of plain paper office copiers and related supplies and service, causing injury to SCM and others engaged in marketing such copiers, supplies and service.

70. Since 1960, Xerox has been engaged in the marketing of plain paper office copiers, first with its model "914" and thereafter with new, different and improved models. Presently, Xerox markets a broad product line of plain paper office copiers, consisting of 14 different models. Xerox intends to continue marketing its present broad product line of plain paper office copiers and in the future to expand its product line to include other new, different and improved models.

71. Between 1960 and 1970, no other company was

engaged in the marketing of plain paper office copiers. Since 1970, IBM has been engaged in the marketing of plain paper office copiers, and since 1972, other companies have been so engaged.

72. Since 1974, SCM has been engaged in the marketing of a plain paper office copier, its model "6740." SCM intends to continue marketing such copier and, starting in 1976, to market another model of a plain paper office copier presently being developed by it.

73. Since 1970, despite attempts by others to compete with Xerox in the marketing of plain paper office copiers, Xerox's placements of plain paper office copiers and its revenues and profits from marketing plain paper office copiers and related supplies and service have increased dramatically and substantially, year after year, both by reason of the fruits and unlawful effects of its illegally acquired monopolistic position as alleged in the First Claim, and by reason of its unlawful marketing acts and practices and their effects as alleged herein. Xerox presently has approximately a 95% share of the domestic installations of plain paper office copiers.

Xerox's Unlawfully Acquired Marketing Advantages:

74. Xerox possesses great marketing advantages over SCM and others, including:

(a) Xerox's unmatched breadth of product line and ability to expand it further, which enables it alone to offer plain paper office copiers throughout the full spectrum of office copying usage and which enables it alone to offer plain paper office copiers with certain advanced and unique features;

(b) Xerox's low cost of manufacturing its equipment;

(c) Xerox's great financial power;

(d) Xerox's enormous sales, public relations, advertising and service organizations and other marketing facilities;

(e) Xerox's low marketing costs;

(f) Xerox's low cost of providing service to its customers and the high density of its copiers within each service area;

(g) Xerox's highly developed and long-standing customer relationships; and

(h) Xerox's vast fund of market information and knowledge of customer preferences.

75. These advantages possessed by Xerox are among the fruits and unlawful effects of its unlawfully acquired monopoly and unlawful acts and practices, all as previously alleged in paragraphs 6 to 29 of the First Claim and hereby repeated and realleged.

76. The efforts of SCM and others in their attempts to compete with Xerox and their efforts to overcome the advantages Xerox has as alleged in paragraph 74 above have been and will continue to be further restrained by reason of Xerox's unlawful marketing acts and practices and their effects, as alleged below.

Xerox's Unlawful Marketing Acts and Practices.

77. Machine Utilization Plan ("MUP") Pricing. MUP pricing is available to a Xerox customer that commits itself to expend a substantial annual minimum for the use of Xerox copiers. The customer may expend this minimum in connection with the use of any of Xerox's plain paper office copiers in any of the customer's locations. Customers who qualify receive substantial price reductions that are not justified in terms of cost savings to Xerox.

78. Attempts by SCM and others to compete with Xerox are unreasonably restrained by Xerox's use of MUP pricing because:

(a) MUP pricing is discriminatory.

(b) MUP pricing has the effect of tying all of Xerox's copiers together. Many Xerox customers using Xerox's unique or more desirable copiers, in order to meet the required MUP annual minimum and achieve the substantial savings offered by MUP, have no economic alternative but to use in addition Xerox copiers that are not unique and that would otherwise face competition from SCM and others.

(c) MUP contracts have a minimum duration of one year.

79. As a result of the foregoing, SCM and others have been restrained in their efforts to make placements of plain paper office copiers with national accounts and large multi-branch users of office copiers. SCM and others have thus been restrained from competing for, and participating in, the most profitable segment of the plain paper office copying market.

80. "Lease Only" Policy. Xerox has adopted and followed since 1960 a "lease only" policy pursuant to which it:

(a) refuses to sell some of its copiers at any price and

(b) discourages the sale of its other copiers

by, among other things, (i) offering to sell them only at prices that are unreasonably high and uneconomic, (ii) discriminating against purchased equipment, in favor of leased equipment, with regard to maintenance and other services and (iii) refusing to offer any volume discounts on the purchase price of equipment or on maintenance purchased from it for purchased equipment, while making such discounts available with regard to leased equipment.

81. Xerox has also conditioned the market for plain paper office copiers so that most users and potential users, through fear of obsolescence and for other reasons, prefer to lease rather than purchase plain paper office copiers.

82. One unlawful effect of Xerox's "lease only" policy and of Xerox's conditioning of the market is that SCM and others marketing plain paper office copiers have been required to place copiers with users pursuant to leases. As a result, in addition to the acquisition or manufacturing and selling costs (which are promptly reimbursed at the time of the sale of a product, but which take years to recapture under a lease), SCM and others have incurred and will continue to incur the very substantial additional investment and other costs required to carry on the marketing of plain

paper office copiers under leasing programs. These substantial additional costs have restrained, and will continue to restrain, the ability of SCM and others to market plain paper office copiers and related supplies and service in competition with Xerox.

83. Other unlawful effects of Xerox's "lease only" policy have been and will be, among other things, (a) to restrain the competitive efforts of third-party leasing companies, and (b) to prevent the competitive benefits of an "after-market" in used Xerox copiers.

84. Other Unlawful Pricing Plans. Xerox discriminates in price among its customers with a variety of different pricing plans under which customers are charged different prices for the copies they make on identical equipment. These price differences are not justified in terms of cost savings to Xerox. These pricing plans include multi-modal pricing, regular commercial pricing, annual average pricing, duo pricing, trio pricing, XDP pricing, duplicating plan pricing, duplicating incentive pricing, D.C. pricing and others.

85. With respect to all of these plans, by which Xerox effects price discrimination without cost justification, the existence or appearance of lower prices for the favored

customers narrows, and in many instances eliminates, any opportunities for price differentials between Xerox's copiers and the plain paper office copiers of SCM and others. Such discrimination thus has the effect of restraining competition offered by SCM and others.

86. Some of the pricing arrangements alleged in paragraph 84 above, including annual average pricing and some forms of duplicating incentive pricing, also involve leases with a one-year term, and thus are methods by which Xerox effects exclusive dealing in restraint of the efforts of SCM and others to compete.

87. The proliferation and complexity of Xerox's various pricing plans result in misleading and confusing users and potential users of Xerox copiers and in some cases make it impossible for a Xerox customer to determine which pricing plan will produce the lowest cost and thus restrain the ability of SCM and others to compete with Xerox.

88. Other Predatory Marketing Practices. Xerox engages in various other predatory marketing practices, including those specified below in paragraphs 89-92.

89. Xerox does not make generally known to its customers all of its pricing plans. A consequence of this

¶ 90 of the complaint, except admits that on [illegible]

concealment by Xerox of its pricing plans and of the confusion engendered by Xerox about pricing is that when Xerox has faced any competition regarding a specific customer, Xerox often has selectively, for the purpose of defeating such competitive efforts, made known to the customer for the first time that Xerox offers one or more alternative pricing plans which will or which appear to produce cost savings to the customer.

90. Xerox engages in various forms of selective price cutting or predatory pricing by departing on an ad hoc basis from its various pricing plans, in order to give additional discounts to customers and prospective customers in response to the threat of possible competition, including:

(a) waiver of the regular monthly use charges;

(b) waiver of standard delivery, installation or other incidental charges;

(c) free trials of new and/or additional Xerox copiers;

(d) providing free supplies of a value equal to machine installation costs; and

(e) "meter cheating", which involves false reports by the Xerox employee responsible for reading the the meter of the number of copies made in a given month.

91. Xerox also leaves its machines free of charge with former customers when those customers replace Xerox machines with competing machines, thereby encouraging and inducing such customers to use the Xerox machines when there is any dissatisfaction with the competing machines and to remove the competing machines without giving them a fair trial.

92. Xerox also disparages competing machines.

93. By these various means, Xerox has been successful in restraining competitive marketing efforts by SCM and others, and will continue to restrain the competitive marketing efforts by SCM and others.

Injury and Claims for Relief:

94. By reason of the foregoing, SCM has been damaged in its business and property in an amount not presently known to it; and SCM will continue to be damaged in its business and property in an amount not presently known to it until such time as Xerox's unlawful acts and practices and their effects have been ended. Under Section 4 of the Clayton Act (15 U.S.C. §15), SCM is entitled to threefold the damages suffered by it, together with reasonable attorneys' fees and other costs and disbursements as are allowable in law and in equity.

95. SCM has been and will continue to be irreparably injured in its business and property by reason of Xerox's unlawful acts and practices and their effects as alleged herein because they have restrained SCM's efforts, and will continue until enjoined and eliminated to restrain SCM's efforts, to become a meaningful competitor of Xerox.

96. Xerox, therefore, pursuant to Section 16 of the Clayton Act (15 U.S.C. §26), should be preliminarily and permanently enjoined from offering its copiers on any basis which involves price discrimination, volume or quantity discounts, exclusive dealing or tying. Xerox should also be preliminarily and permanently enjoined from engaging in each specific marketing act, practice, plan or method alleged herein. To the extent Xerox is permitted to lease, it should be preliminarily and permanently enjoined to market each of its copiers separately, and with respect to each copier at a single, uniform and nonconfusing charge.

97. Xerox should also be preliminarily and permanently enjoined from continuing its practices relating to its "lease only" policy and preliminarily and permanently enjoined to offer all of its copiers for sale, and to offer maintenance and other services with regard to purchased copiers, at fair and reasonable prices and on fair and reasonable terms.

SCM'S FIFTH CLAIM: FOR TREBLE DAMAGES AND INJUNCTIVE RELIEF WITH RESPECT TO COATED PAPER OFFICE COPIERS MARKETED BY SCM

98. The allegations and claims for relief contained in paragraphs 74 to 97 of the Fourth Claim are repeated and realleged.

99. SCM is and has been engaged in the marketing of coated paper office copiers and related supplies and service, and SCM intends to continue such marketing.

100. To the limited extent that there are, and have been, users of office copiers who are, and have been, willing to use coated paper office copiers, despite the strong consumer preferences for plain paper and despite the other advantages Xerox has as alleged in paragraph 74 above, and to the limited extent that SCM and others marketing coated paper office copiers have thereby been able to offer some measure of competition to Xerox, for the most part involving the older and slower plain paper office copiers marketed by Xerox, such competition has been and will continue to be restrained by reason of Xerox's unlawful marketing acts and practices and their effects as alleged in paragraphs 77 to 93 above.

101. The acts and practices of Xerox alleged herein have been committed in interstate commerce and in American foreign commerce.

102. By reason of the foregoing Xerox has violated Section 1 and 2 of the Sherman Act and Section 3 of the Clayton Act (15 U.S.C. §§1, 2 and 14, respectively), and SCM has been injured in its business and property, and is entitled to relief, as alleged in paragraphs 94 to 97 above.

WHEREFORE, this Court should grant the interlocutory and permanent relief requested with respect to the First, Third, Fourth and Fifth Claims, the damages sought with respect to the Second, Third, Fourth and Fifth Claims; the disbursements, attorneys' fees and other costs as are allowable in law and in equity; and such other and further relief as this Court deems just and proper as to each Claim.

Stephen Rackow Kaye
Ronald S. Rauchberg
Julius J. Teller
Robert S. Marin
Richard M. Gelb
Proskauer Rose Goetz & Mendelsohn
300 Park Avenue
New York, N.Y. 10022

Jerome Jotkin
W. Thomas Fagan
Robert M. Wenger
Widett & Widett
100 Federal Street
Boston, Mass. 02110

Ira B. Grudberg
David L. Belt
Jacobs, Jacobs & Grudberg
207 Orange Street
New Haven, Conn. 06503

Gerald S. Schur
Sears Tower
Chicago, Ill. 60606

Martin Goldstein, Esq.
Ryder McAulay Fields Fisher
& Goldstein
20 Exchange Place
New York, New York 10005

Attorneys for Plaintiff
SCM Corporation

June 2, 1975

Xerox' Answer to SCM's Second Amended and Supplemental Complaint

UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION,	:	
Plaintiff,	:	
v.	:	Civil Action No. 15,807
XEROX CORPORATION,	:	
Defendant.	:	

ANSWER TO SCM'S AMENDED AND SUPPLEMENTAL COMPLAINT

Defendant Xerox Corporation ("Xerox") for its answer to the Second Amended and Supplemental Complaint (hereinafter the "complaint"), alleges:

1. Denies each and every allegation contained in paragraph 1 of the complaint.

2. Denies each and every allegation contained in paragraph 2 of the complaint, except admits that plaintiff purports to institute this action under Sections 4 and 16 of the Clayton Act (15 U.S.C. §§ 15 and 26) for injunctive relief and damages.

3. Denies each and every allegation contained in paragraph 3 of the complaint, except admits that Xerox is engaged in commerce within the meaning of the Sherman and Clayton Acts.

4. Admits the allegations contained in paragraph 4 of the complaint.

 Denies each and every allegation contained

5. Denies knowledge or information sufficient to form a belief as to the truth of the allegations contained in paragraph 5 of the complaint, except admits that Xerox is a corporation organized and existing under the laws of the State of New York and is engaged in the manufacture and marketing of plain paper office copiers and that SCM is engaged in the manufacture and marketing of coated paper copiers, since January 1974 has been marketing a plain paper office copier manufactured by another company, and has to an extent not presently known to Xerox recently been engaged in the development of a plain paper office copier.

6. Denies each and every allegation contained in paragraph 6 of the complaint, except admits that it purports to state an unduly narrow definition of "plain paper office copiers" which is used throughout the complaint. (Although denying the validity of this definition, this answer will nevertheless respond to the allegations of the complaint in terms which assume that the definition in paragraph 6 of the complaint applies.)

7. Denies each and every allegation contained in paragraph 7 of the complaint.

8. Admits the allegations of the first sentence of paragraph 8 of the complaint, except denies knowledge or information sufficient to form a belief as to whether a plain paper office copier recently advertised by Minnesota Mining and Manufacturing Co. employs xerography; denies each and every allegation contained in the second sentence of paragraph 8, except admits that the name "xerography" was selected in 1948 by Xerox and Battelle to describe the art of forming and utilizing an electrostatic charge pattern on

an insulating or photoconductive insulating surface; and admits the allegations contained in the third sentence of paragraph 8 of the complaint.

9. Denies each and every allegation contained in the first sentence of paragraph 9 of the complaint and denies knowledge or information sufficient to form a belief as to the truth of the second sentence of paragraph 9 of the complaint, except admits that Xerox has employed xerography in all of its plain paper office copiers.

10. Denies each and every allegation contained in paragraph 10 of the complaint.

11. Denies each and every allegation contained in the first two sentences of paragraph 11 of the complaint; and denies information sufficient to form a belief as to the truth of the allegations of the third sentence of paragraph 11 of the complaint.

12. Denies each and every allegation contained in paragraph 12 of the complaint.

13. Denies each and every allegation contained in paragraph 13 of the complaint.

14. Denies each and every allegation contained in paragraph 14 of the complaint.

15. Denies each and every allegation contained in paragraph 15 of the complaint.

16. Denies each and every allegation contained in paragraph 16 of the complaint, except admits that inventions by Chester Carlson marked the beginning of xerography and that certain of these inventions were covered by four patents which issued between 1940 and 1944 and which expired between 1957 and 1961.

17. Denies each and every allegation contained in paragraph 17 of the complaint, except admits that Battelle and Carlson entered into an agreement in 1944 which provided

that Battelle was appointed exclusive agent for the purpose of negotiating and granting licenses under three of the four patents referred to in paragraph 16 of the complaint and the predecessor patent application of the fourth patent, and that Battelle was to be diligent in prosecuting research and development work to perfect and improve these inventions and in trying to promote commercial use of these inventions. (Reference to the agreement is necessary for its precise terms.)

18. Denies each and every allegation contained in paragraph 18 of the complaint, except admits that Xerox entered into agreements with Battelle effective between 1947 and 1956 under which Xerox ultimately obtained an exclusive license under the four Carlson patents referred to in paragraph 16, certain other issued United States and foreign xerographic patents owned or controlled by Battelle, and certain other patents which Battelle might subsequently own or control relating to these inventions and Battelle carried on xerographic research and development activities for Xerox. (Reference to the agreements is necessary for their precise terms.)

19. Denies each and every allegation contained in paragraph 19 of the complaint, except admits that Xerox and Battelle entered into an agreement effective as of 1956 under which Battelle assigned to Xerox the four Carlson patents referred to in paragraph 16, licensed certain of its patents, patent applications and technical information relating to xerography for a certain period and granted certain contingent rights to those and future patents, patent applications and technical information of Battelle relating to

xerography. (Reference to the agreement is necessary for its precise terms.)

20. Admits the allegations of paragraph 20 of the complaint.

21. Denies each and every allegation contained in paragraph 21 of the complaint, except admits that in 1960 Xerox entered into an agreement with Horizons, Inc. under which certain United States and foreign patents and patent applications relating to xerography were assigned to Xerox, and Horizons, for a period of time thereafter, performed xerographic research exclusively for Xerox. (Reference to the agreement is necessary for its precise terms.)

22. Denies each and every allegation contained in paragraph 22 of the complaint, except admits that Xerox obtained access to certain patented and unpatented xerographic technology developed by other companies under various types of agreements including license, cross license and consulting agreements. (Reference to the agreements is necessary for their precise terms.)

23. Denies each and every allegation contained in paragraph 23 of the complaint, except admits that by the end of 1961 the four Carlson patents referred to in paragraph 16 had expired, Xerox owned about 1,000 United States and foreign xerographic patents and patent applications and Xerox had obtained contingent rights to certain future research and development by Battelle, Horizons and others. (Reference to the agreements is necessary for their precise terms.)

24. Denies each and every allegation contained in paragraph 24 of the complaint.

25. Denies each and every allegation contained in paragraph 25 of the complaint.

26. Denies each and every allegation contained in paragraph 26 of the complaint.

27. Denies each and every allegation contained in paragraph 27(a) of the complaint; denies each and every allegation contained in paragraph 27(b) of the complaint, except admits the facts admitted in paragraphs 20 through 23 of this answer; denies each and every allegation contained in paragraph 27(c) of the complaint; denies each and every allegation contained in paragraph 27(d) of the complaint, except admits that until 1970 Xerox entered into agreements with research, scientific and technical employees whereby they agreed for a period following termination of their employment with Xerox not to engage in xerographic activities; denies each and every allegation contained in paragraph 27(e) of the complaint; denies each and every allegation contained in paragraph 27(f) of the complaint, except admits that since 1961 Xerox has expanded its xerographic research and development facilities and activities and the number of professional and skilled employees engaged in those activities; denies each and every allegation contained in paragraph 27(g) of the complaint; denies each and every allegation contained in paragraph 27(h) of the complaint; denies each and every allegation contained in paragraph 27(i) of the complaint; denies each and every allegation contained in paragraph 27(j) of the complaint; denies each and every allegation contained in paragraph 27(k) of the complaint, except admits that Xerox entered into certain license agreements under xerographic patents under which the licensee received from

Xerox rights with respect to defined fields not including the manufacture or marketing of plain paper office copiers; denies each and every allegation contained in paragraph 27(l) of the complaint; denies each and every allegation contained in paragraph 27(m) of the complaint; denies each and every allegation contained in paragraph 27(n) of the complaint, except admits that Xerox did not grant requests by SCM and certain others for patent licenses with respect to plain paper office copying prior to 1970, but in 1970 Xerox affirmatively offered such licenses under certain of its patents; denies each and every allegation contained in paragraph 27(o) of the complaint; denies each and every allegation contained in paragraph 27(p) of the complaint, except admits that Xerox threatened to institute and instituted certain patent infringement suits to vindicate its patent rights against infringing competitors, including SCM; denies each and every allegation contained in paragraph 27(q) of the complaint; denies each and every allegation contained in paragraph 27(r) of the complaint, except admits that since 1965 Xerox has developed and manufactured new and improved models of plain paper office copiers using technology developed by Xerox and has continued to use technology developed at Battelle, Horizons and elsewhere; denies each and every allegation contained in paragraph 27(s) of the complaint, except admits that Xerox has expanded its manufacturing and marketing facilities, personnel, capabilities, and product line since 1961; denies each and every allegation contained in paragraph 27(t) of the complaint.

28. Denies each and every allegation contained in paragraph 28 of the complaint.

29. Denies each and every allegation contained in paragraph 29 of the complaint.

30. Denies each and every allegation contained in paragraph 30 of the complaint.

31. Denies each and every allegation contained in paragraph 31 of the complaint.

32. Denies each and every allegation contained in paragraph 32 of the complaint.

33. Denies each and every allegation contained in paragraph 33 of the complaint.

34. Denies each and every allegation contained in paragraph 34 of the complaint.

35. Denies each and every allegation contained in paragraph 35 of the complaint.

36. Denies each and every allegation contained in paragraph 36 of the complaint.

37. Denies each and every allegation contained in paragraph 37 of the complaint.

38. Denies each and every allegation contained in paragraph 38 of the complaint.

39. Denies each and every allegation contained in paragraph 39 of the complaint.

40. Denies each and every allegation contained in paragraph 40 of the complaint.

41. Denies each and every allegation contained in paragraph 41 of the complaint.

42. Denies each and every allegation contained in paragraph 42 of the complaint.

43. Denies each and every allegation contained in paragraph 43 of the complaint.

paragraph 44 of the complaint.

45. Denies each and every allegation contained in paragraph 45 of the complaint.

46. Denies each and every allegation contained in paragraph 46 of the complaint.

47. Denies each and every allegation contained in paragraph 47 of the complaint.

48. Denies each and every allegation contained in paragraph 48 of the complaint.

49. Denies each and every allegation contained in paragraph 49 of the complaint.

50. Denies each and every allegation contained in paragraph 50 of the complaint.

51. Denies each and every allegation contained in paragraph 51 of the complaint.

52. Denies each and every allegation contained in paragraph 52 of the complaint.

53. Denies each and every allegation contained in paragraph 53 of the complaint.

54. Denies each and every allegation contained in paragraph 54 of the complaint.

55. Denies each and every allegation contained in paragraph 55 of the complaint.

56. Repeats and realleges the allegations of paragraphs 6 to 29 of this answer.

57. Denies each and every allegation contained in paragraph 57 of the complaint.

58. Denies each and every allegation contained in paragraph 58 of the complaint.

59. Denies each and every allegation contained in paragraph 59 of the complaint.

60. Denies each and every allegation of paragraph 60 of the complaint, except admits that on February 11, 1964, U.S. Patent 3,121,006, entitled "Photo-Active Member for Xerography" (the Middleton-Reynolds '006 patent), was issued and that Xerox owns said patent.

61. Denies each and every allegation contained in paragraph 61 of the complaint, except admits that SCM and Xerox entered into an agreement dated June 3, 1968, providing for a license to SCM, for specified royalties, to make, use and sell coated paper and equipment for making xerographic coated paper copies for use in the process of the Middleton-Reynolds '006 patent, with license rights also under other patents owned or controlled by Xerox as were directly necessary to enjoyment of the foregoing rights (all as defined in the agreement). (Reference to the agreement is necessary for its precise terms.)

62. Admits the allegations of the first sentence of paragraph 62 of the complaint and denies each and every allegation contained in the second sentence of paragraph 62 of the complaint, except admits that SCM and Xerox entered into an agreement dated April 5, 1964, providing for a license to SCM, for specified royalties, to make, use and sell coated paper and equipment for making xerographic copies under patents owned or controlled by Xerox in the Western Hemisphere, including the Middleton-Reynolds '006 patent (all as defined in the agreement). (Reference to the agreement is necessary for its precise terms.)

sentence of paragraph 63 of the complaint; denies each and every allegation of the second sentence of the complaint, except admits that SCM paid royalties to Xerox under the April 6, 1964 and June 3, 1968 agreements in the total amount of $639,192.62.

64. Denies each and every allegation of paragraph 64 of the complaint, except admits that Xerox maintains that the manufacture and sale by SCM of coated paper office copiers and coated paper since 1962, but for a license from Xerox during part of that period, infringed, contributorily infringed and/or induced infringement of the Middleton-Reynolds '006 patent and for the part of that period during which SCM was unlicensed Xerox would be entitled to injunctive and damages relief in a suit for such infringement, and that the agreement of June 3, 1968 remained in effect until about November 30, 1971 and Xerox did not, prior to this date, commence any action against SCM for breach of contract or for infringement.

65. Denies each and every allegation contained in paragraph 65 of the complaint.

66. Denies each and every allegation contained in paragraph 66 of the complaint.

67. Denies each and every allegation contained in paragraph 67 of the complaint.

68. Denies each and every allegation contained in paragraph 68 of the complaint.

69. Denies each and every allegation contained in paragraph 69 of the complaint.

70. Denies each and every allegation of paragraph 70 of the complaint, except admits that Xerox has engaged in the marketing of plain paper copiers since 1960, first with the model "914" and thereafter with new, different and im-

of plain paper copiers; and that Xerox intends in the future to continue to develop and market plain paper copiers.

71. Denies each and every allegation contained in paragraph 71 of the complaint, except admits that IBM has been engaged in marketing plain paper office copiers since 1970 and that as of at least 1972 other companies have also been so engaged.

72. Denies knowledge and information sufficient to form a belief as to the truth of the allegations contained in paragraph 72 of the complaint, except admits that SCM has been engaged in the marketing of a plain paper office copier, the SCM 6740, since 1974, and that SCM has recently been engaged to an extent not presently known to Xerox in the development of a plain paper office copier.

73. Denies each and every allegation contained in the first sentence of paragraph 73 of the complaint and denies knowledge or information sufficient to form a belief as to the truth of the allegations of the second sentence of paragraph 73 of the complaint.

74. Denies each and every allegation contained in paragraph 74 of the complaint.

75. Denies each and every allegation contained in paragraph 75 of the complaint.

76. Denies each and every allegation contained in paragraph 76 of the complaint.

77. Denies each and every allegation contained in paragraph 77 of the complaint, except admits the existence of a MUP pricing plan to which reference must be made for its precise terms.

78. Denies each and every allegation contained in paragraph 78 of the complaint.

79. Denies each and every allegation contained in paragraph 79 of the complaint.

80. Denies each and every allegation contained in paragraph 80 of the complaint.

81. Denies each and every allegation contained in paragraph 81 of the complaint, except admits that most users and potential users of Xerox' plain paper office copiers prefer to lease rather than purchase plain paper office copiers.

82. Denies each and every allegation contained in paragraph 82 of the complaint, except denies knowledge or information sufficient to form a belief as to the truth of the allegations contained in paragraph 82 of the complaint concerning the investment and other costs SCM and others have incurred in their marketing of copying and/or duplicating equipment.

83. Denies each and every allegation contained in paragraph 83 of the complaint.

84. Denies each and every allegation contained in paragraph 84 of the complaint, except admits that Xerox offers various pricing plans to which reference must be made for their precise terms.

85. Denies each and every allegation contained in paragraph 85 of the complaint.

86. Denies each and every allegation contained in paragraph 86 of the complaint, except admits that some pricing plans involve one-year leases to which reference must be made for their precise terms.

87. Denies each and every allegation contained in paragraph 87 of the complaint.

88. Denies each and every allegation contained in paragraph 88 of the complaint.

89. Denies each and every allegation contained in paragraph 89 of the complaint.

90. Denies each and every allegation contained in paragraph 90 of the complaint.

91. Denies each and every allegation contained in paragraph 91 of the complaint.

92. Denies each and every allegation contained in paragraph 92 of the complaint.

93. Denies each and every allegation contained in paragraph 93 of the complaint.

94. Denies each and every allegation contained in paragraph 94 of the complaint.

95. Denies each and every allegation contained in paragraph 95 of the complaint.

96. Denies each and every allegation contained in paragraph 96 of the complaint.

97. Denies each and every allegation contained in paragraph 97 of the complaint.

98. Repeats and realleges paragraphs 74 through 97 of this Answer as if fully set our here as its answer to paragraph 98 of the complaint.

99. Denies knowledge and information sufficient to form a belief as to the truth of the allegations contained in paragraph 99 of the complaint, except admits SCM is and has been engaged in the marketing of coated paper office copiers and related supplies and service.

100. Denies each and every allegation contained in paragraph 100 of the complaint, except admits that coated paper copiers compete with plain paper copiers.

101. Denies each and every allegation contained in paragraph 101 of the complaint except admits that Xerox is engaged in commerce within the meaning of the Sherman and Clayton Acts.

102. Denies each and every allegation contained in paragraph 102 of the complaint.

FIRST AFFIRMATIVE DEFENSE

103. The claims alleged in the complaint are barred, in whole or in part, by the applicable statutes of limitations.

SECOND AFFIRMATIVE DEFENSE

104. SCM is estopped, in whole or in part, by reason of laches from asserting the claims alleged in the complaint.

FIRST COUNTERCLAIM

For its first counterclaim against the plaintiff, Xerox alleges:

105. This Court has jurisdiction of this counterclaim pursuant to Rule 13 of the Federal Rules of Civil Procedure.

106. Effective January 1, 1968, SCM and Xerox entered into a license agreement (hereinafter "the 1968 agreement").

107. Effective about November 30, 1971 the 1968 agreement terminated pursuant to the terms thereof.

108. SCM is now and has been obligated to pay royalties to Xerox for SCM's activities under the 1968 agreement prior to its termination in accordance with the provisions of said agreement.

109. Since about May 1, 1970 and continuously thereafter, SCM has failed to perform the obligations and duties required by the 1968 agreement in that SCM has failed to pay to Xerox royalties due and owing under said agreement for SCM's activities during the period of about January 1, 1970 through November 30, 1971.

110. SCM is now and has been obligated to render written reports to Xerox concerning its activities under the 1968 agreement prior to its termination in accordance with the provisions of said agreement.

111. Since about May 1, 1970 and continuously thereafter, SCM has failed to perform the obligations and duties required by the 1968 agreement in that SCM has failed to render the written reports covering its activities during the period of about January 1, 1970 through November 30, 1971 as required by the 1968 agreement.

112. SCM has refused to pay the aforesaid royalties or to render the aforesaid reports.

113. Xerox has been damaged by the acts of SCM and by SCM's failure to perform the aforesaid obligations and duties under the 1968 agreement.

SECOND COUNTERCLAIM

For its second counterclaim against the plaintiff, Xerox alleges:

114. Repeats and realleges the allegations of Paragraphs 105 to113 of Xerox' First Counterclaim.

115. This is a Counterclaim for patent infringement arising under the Patent Laws of the United States. This Court has jurisdiction pursuant to Rule 13 of the Federal Rules of Civil Procedure.

116. On or about February 11, 1964 U.S. Letters Patent 3,121,006 was duly and legally issued. Xerox is now the owner of said Letters Patent and has been the owner thereof since its date of issuance.

117. Since about December 1, 1971, SCM has infringed, contributorily infringed and/or induced others to

infringe the aforesaid Letters Patent 3,121,006 by making, using, selling, and/or leasing within the United States copiers and/or duplicators and special coated paper therefor, for use in the invention of said Letters Patent, and SCM will continue to do so to the irreparable damage and loss of Xerox unless enjoined by this Court.

118. SCM's infringement of the aforesaid patent has been willful, wanton and deliberate.

THIRD COUNTERCLAIM

For its third counterclaim against the plaintiff, Xerox alleges:

119. Repeats and realleges the allegations of Paragraphs 105 to 118 of Xerox' First and Second Counterclaims, as though fully set forth herein.

120. This is a Counterclaim for patent infringement arising under the Patent Laws of the United States. This Court has jurisdiction pursuant to Rule 13 of the Federal Rules of Civil Procedure.

121. On about June 27, 1972 U.S. Letters Patent 3,672,884 was duly and legally issued. Xerox is now the owner of said Letters Patent and has been the owner thereof since its date of issuance.

122. SCM has infringed, contributorily infringed, and/or induced others to infringe the aforesaid Letters Patent 3,672,884 by making, using, selling and/or leasing within the United States copiers and/or duplicators and liquid developer therefor, for use in the invention of said Letters Patent, and SCM will continue to do so to the irreparable damage and loss of Xerox unless enjoined by this Court.

123. SCM's infringement of the aforesaid patent has been willful, wanton and deliberate.

WHEREFORE, Xerox prays that this Court enter a judgment and decree:

1. Dismissing SCM's complaint and all claims therein.

2. Ordering SCM to render to Xerox the written reports required by the 1968 agreement.

3. Awarding Xerox an accounting under its First Counterclaim, and that upon such accounting Xerox have judgment against SCM for the amounts found due and owing from SCM to Xerox thereby, together with legal interest from the date of the accrual of such amounts.

4. Permanently enjoining SCM, its officers, agents, servants, employees and those persons in active concert or participation with SCM, from infringing the Xerox patents referred to in Xerox' Second and Third Counterclaims.

5. Awarding Xerox damages resulting from SCM's willful, wanton and deliberate infringement of the Xerox patents referred to in Xerox' Second and Third Counterclaims, and that said damages be trebled.

6. Awarding Xerox its costs herein and reasonable attorney's fees.

7. Granting Xerox such other and further relief as the Court may deem proper.

Dated:

CUMMINGS & LOCKWOOD
1 Atlantic Street
Stamford, Connecticut 06904

By_____
A Member of the Firm

KAYE, SCHOLER, FIERMAN, HAYS & HANDLER
425 Park Avenue
New York, New York 10022

KENYON & KENYON REILLY CARR & CHAPIN
59 Maiden Lane
New York, New York 10038

JOHN R. MURPHY, ESQ.
Xerox Corporation
Stamford, Connecticut 06904

TO: PROSKAUER ROSE GOETZ & MENDELSOHN
300 Park Avenue
New York, New York 10022

WIDETT & WIDETT
100 Federal Street
Boston, Massachusetts 02110

JACOBS, JACOBS & GRUDBERG
207 Orange Street
New Haven, Connecticut 06503

RYDER, McAULAY, FIELDS, FISHER & GOLDSTEIN
20 Exchange Place
New York, New York 10005

GERALD S. SCHUR, ESQ.
Sears Tower
Chicago, Illinois

CERTIFICATE OF SERVICE

This is to certify that the foregoing Answer was served by mailing a copy thereof by United States mail, postage prepaid to:

PROSKAUER ROSE GOETZ & MENDELSOHN
300 Park Avenue
New York, New York 10022

WIDETT & WIDETT
100 Federal Street
Boston, Massachusetts 02110

JACOBS, JACOBS & GRUDBERG
207 Orange Street
New Haven, Connecticut 06503

RYDER, McAULAY, FIELDS, FISHER & GOLDSTEIN
20 Exchange Place
New York, New York 10005

GERALD S. SCHUR
Sears Tower
Chicago, Illinois

Dated: 1975

Letter from Gerald Sobel
to Ronald Rauchberg

KAYE, SCHOLER, FIERMAN, HAYS & HANDLER
425 PARK AVENUE NEW YORK, N.Y. 10022

(212) PLAZA 9-0400

December 3, 1973

BY HAND

Ronald Rauchberg, Esq.
Proskauer Rose Goetz & Mendelsohn
300 Park Avenue
New York, New York 10022

Re: SCM Corp. v. Xerox Corp.

Dear Mr. Rauchberg:

This will reflect the understanding reached by us at our meetings of November 9 and 28, and in intervening and subsequent telephone conversations concerning Xerox' responses to SCM's Interrogatories and Document Requests Respecting its First Claim (the "Request").

Xerox agrees to respond to SCM's Request as modified below, with the exception set forth in the last paragraph of this letter. The modifications of the Request set forth below are without prejudice to renewal by SCM at a later date and Xerox' right, in the event of such renewal, to reassert any objections made in its Response dated October 24, 1973. Xerox reserves any right it may have to produce documents in lieu of answering interrogatories. Xerox also reserves its objections predicated on confidentiality (Xerox will advise SCM whether it will adhere to its confidentiality objections after the Court rules on SCM's pending motion respecting confidentiality).*

* Xerox, of course, also reserves its objections on the basis of attorney-client privilege, and preparation in anticipation of litigation or for trial.

Ronald Rauchberg, Esq. December 3, 1973

Kindly indicate your consent to the terms of this letter by signing and returning to me the enclosed copy.

General Modifications

Xerox will search for responsive documents only among the files of the officers of Xerox Corporation and its Information Systems Group (and predecessor groups responsible for its copying and duplicating business) in Stamford, Connecticut, and Rochester and Webster, New York, predecessors of those officers ("officers" to include all employees at the level of vice president and higher, including the general counsel), and Xerox' Patent Department, and the Xerox business libraries, which are the Xerox Square and the Sales Information libraries, and the "historical file" (from which price lists were previously produced to SCM). Xerox will ~~advise SCM of the precise files searched, as a group, in responding to the document requests~~ provide SCM with a single list of the precise files it searched in responding to the document requests as a whole.

Xerox will identify each document it withholds from production on the grounds that it is subject to the attorney-client privilege or was prepared in anticipation of litigation or for trial, and will identify by category any documents withheld from production on the grounds of confidentiality.

Modifications of Specific Items*

4. (c), (d) Withdrawn. Instead, all documents referring to the use or non-use of any patents or presently pending patent applications in each model identified in response to Item No. 3 are requested.

6. No response is required respecting areas outside the United States.

* All cross-references to modified clauses are modified to the same extent.

Ronald Rauchberg, Esq. December 3, 1973

9. and 10. Withdrawn. Instead, documents sufficient to set forth the information sought are requested.

11. Withdrawn insofar as it refers to 9 and 10.

13. Withdrawn except as to the United States.

17(a) and 19(a). Withdrawn as to foreign patents and patent applications, except to request that Xerox identify the person from whom it acquired its rights and the date upon which it acquired its rights.

17(b) and 19(b). Withdrawn as to addresses except for country of the person by whom the inventor was employed.

21. Subsection (a) is modified to request documents sufficient to set forth which foreign patents and patent applications are counterparts to the U.S. patents and patent applications identified in answer to Items 16, 18 and 20. Subsection (b) is withdrawn.

24. Withdrawn. Instead, documents sufficient to set forth which of the patents and patent applications referred to in answer to Items 16, 18 and 20 Xerox placed under each of the descriptions or classifications referred to in answer to Item 23 are requested.

25(a). Withdrawn as to the number of patent attorneys employed by Xerox outside of the United States, except as to the most recent year.

26. Withdrawn as to Xerox' employment agreements with employees outside the United States who are not engaged in research and development activities.

26(e). Withdrawn. Instead, all documents are requested which describe or refer to the actual or intended effects of such a provision: (a) in restraining employees from engaging in xerography or indirectly serving or advising in xerography or being employed in xerography by any individual, firm or corporation; (b) in restraining

employees from leaving Xerox' employ; (c) in restraining others from seeking the services of Xerox' employees; (d) in contributing to Xerox' ability to control a substantial portion of the personnel in the world skilled in the science and technology of xerography; and (e) on Xerox' market position and ability to carry on research and development.

27(c) and (d). Withdrawn except as to the most recent year.

27(f). As to Rank Xerox and Fuji-Xerox, withdrawn except as to the most recent year.

35. "or relating" is deleted.

36, 37 and 38. Withdrawn as to sales offices, salesmen, servicemen and "tech-reps" outside of the United States, except as to the most recent year.

39. Withdrawn as to addresses. Only the country of each person referred to is sought.

56. Withdrawn, although this is not intended to exclude documents marked "Xerox Restricted" if they are otherwise called for.

60. Clarified. This item is intended to refer to speeches, talks, interviews or other presentations given to persons not employed by Xerox.

61(a). The additional request for "all correspondence, memoranda and other documents concerning the same" is withdrawn except as to documents sufficient to explain the categories of data on "MARS" reports.

61(b) through 61(h). The additional request for "all correspondence, memoranda and other documents concerning the same" is withdrawn. Each of these items except subdivision (d) is modified so that the word "memoranda" is added as the first word thereof.

KAYE, SCHOLER, FIERMAN, HAYS & HANDLER

Ronald Rauchberg, Esq. December 3, 1973

61(i) through 61(n) and 61(p). The additional request for "all correspondence, memoranda and other documents concerning the same" is withdrawn except as to all responses to the described matters and all documents referring to or discussing the reasons for the action of Xerox, Rank Xerox or Fuji-Xerox and the actual or intended effects thereof.

61(o), 61(r) and 61(s). The additional request for "all correspondence, memoranda and other documents concerning the same" is withdrawn.

61(q). The additional request for "all correspondence, memoranda and other documents concerning the same" is withdrawn. This item is modified so that the word "memoranda" is added as the first word thereof.

The foregoing leaves for presentation to and resolution by the Court only the following issue:

The date by which SCM's requests, as modified herein, are to be responded to.

Sincerely yours,

Gerald Sobel

Consented to:

Ronald Rauchberg, Esq.

Letter from Louis Maggiotto to Stephen Kaye

KAYE, SCHOLER, FIERMAN, HAYS & HANDLER
ATTORNEYS
425 PARK AVENUE
NEW YORK, N.Y. 10022

TELEPHONE
(212) PLAZA 9-8400

CABLE ADDRESSES
KAYEMA LEX NEW YORK
KAYEMASLEX NEUILLY/SEINE

TELEX NUMBERS
NEW YORK DOMESTIC 126921
NEW YORK INT'L 234860
PARIS LEFEBVRE 620718

3, VILLA EMILE BERGERAT
92523 NEUILLY (PARIS), FRANCE
TEL. 637 95 00

April 17, 1975

BY HAND

Stephen R. Kaye, Esq.
Proskauer, Rose, Goetz &
Mendelsohn
300 Park Avenue
New York, New York 10022

Dear Steve:

This letter is a further response to certain requests for information and documents made by you at the deposition of Dr. John Dessauer, October 23-25, October 30-November 1, November 4-5, 1974 and February 12-13, 1975. We have previously responded to some of your requests in my letter to you dated December 17, 1974 and on October 30 and October 31, 1974 at the deposition (Vol. IV, pp. 5-6, and Vol. V, pp. 2-3).*

A number of your requests are for documents previously produced by Xerox to SCM. We wish to note that it is burdensome for us to search for and produce such material twice and we would appreciate it if you would try to avoid such requests in the future.

1. With respect to your request that Xerox produce documents relating to Chester Carlson, enclosed please find employment agreements between Xerox and Carlson, dated March 13, 1953 and March 24, 1956 (SD 501-503) (Vol. III, pp. 332-335).**

---

* All such parenthetical references are to the transcript of the deposition.

** I have indicated the place in the transcript where each of your requests was made.

KAYE, SCHOLER, FIERMAN, HAYS & HANDLER
ATTORNEYS
425 PARK AVENUE
NEW YORK, N.Y. 10022

TELEPHONE
(212) PLAZA 9-8400

CABLE ADDRESSES
KAYEMA LER NEW YORK
KAYEMASLER NEUILLY/SEINE

TELEX NUMBERS
NEW YORK DOMESTIC 126921
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PARIS LEFEBVRE 62971F

3, VILLA EMILE BERGERAT
92523 NEUILLY (PARIS) FRANCE

TEL. 637 95 00

April 17, 1975

BY HAND

Stephen R. Kaye, Esq.
Proskauer, Rose, Goetz &
Mendelsohn
300 Park Avenue
New York, New York 10022

Dear Steve:

This letter is a further response to certain requests for information and documents made by you at the deposition of Dr. John Dessauer, October 23-25, October 30-November 1, November 4-5, 1974 and February 12-13, 1975. We have previously responded to some of your requests in my letter to you dated December 17, 1974 and on October 30 and October 31, 1974 at the deposition (Vol. IV, pp. 5-6, and Vol. V, pp. 2-3).*

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1. With respect to your request that Xerox produce documents relating to Chester Carlson, enclosed please find employment agreements between Xerox and Carlson, dated March 13, 1953 and March 24, 1956 (SD 501-503) (Vol. III, pp. 332-335).**

---

* All such parenthetical references are to the transcript of the deposition.

** I have indicated the place in the transcript where each of your requests was made.

9. With respect to your request for "surveys" prepared by Frank Steinhilper, we have found such documents and they are privileged (Vol. III, p. 412).

10. With respect to your request for documents dated August 26, 1953 and November 16, 1953 referred to in PX 148, we have found such documents and they are privileged (Vol. III, p. 417).

11. With respect to your request for documents pertaining to Dr. Schaffert, enclosed please find responsive documents (SD 528-534). In addition we have other responsive documents which are privileged (Vol. VIII, p. 28).

12. With respect to your request for information concerning the termination of Xerox sponsored research at Horizons, please be advised that Xerox sponsored no research at Horizons after 1969 (Vol. IX, pp. 34-36).

13. With respect to your request for a letter from Joseph C. Wilson to Mr. Reid, dated February 22, 1951, referred to in PX 175B, enclosed please find a document designated XL 10000, previously produced to SCM (Vol. IX, pp. 110-111).

14. With respect to your request for a letter from Joseph C. Wilson to George E. Morris, dated March 12, 1952, referred to in PX 445, enclosed please find a document designated XL 10404, previously produced to SCM (Vol. X, p. 24).

15. With respect to your request for a "note" from John Crout to Joseph C. Wilson, dated May 12, 1953, referred to in PX 14, enclosed please find the document (SD 535-537) (Vol. X, p. 67).

16. With respect to your request to be advised as to why deletions were made in PX 461, please be advised that the information deleted was privileged (Vol. X, pp. 110-111).

17. With respect to your request for documents pertaining to IBM's sponsored research at Battelle, please be referred to documents among those designated XR 3000-5000, and XR 10000-11000, previously produced to SCM (Vol. XI, pp. 14-15).

Stephen R. Kaye, Esq. April 17, 1975

18. With respect to your request for "Exhibit A," referred to in PX 559A, enclosed please find a document designated XL 10508-10518, previously produced to SCM (Vol. XI, pp. 22-23).

19. With respect to your request for documents terminating PX 559A, we have looked for and not found such documents (Vol. XI, pp. 23-24).

20. With respect to your request for memoranda from Frank Steinhilper commenting on patents issued to other companies, we have found such documents and they are privileged (Vol. XI, p. 60).

21. With respect to your request for documents referred to in PX 561 (Vol. XI, pp. 94-95, 117):

(a) Enclosed please find Dr. Dessauer's report on a meeting, January 29, 1959 (SD 538-541), and Mr. Kuhns' memo dated September 10, 1958 (SD 542).

(b) We have Mr. Wilson's memo dated June 16, 1958 and Mr. Wilson's memo to Mr. Linowitz dated February 17, 1959. Both documents are privileged.

(c) We have looked for and not found Mr. Kuhns' memo dated June 16, 1958.

22. With respect to your request as to which Xerox machines use magnetic brush development, please be advised that the 3100, 6500, and 9200 use this method of development (Vol. XII,* pp. 13-14).

23. With respect to your request for information pertaining to the options granted Keuffel and Esser, please be advised that we have found no information about whether Keuffel and Esser exercised its options other than what is reflected in documents among those designated XL 9200-9400, previously produced to SCM (Vol. XII, p. 34).

24. With respect to your request for information pertaining to PX 175A, we are unable to determine if PX 175A was received by Dr. Dessauer (Vol. IX, p. 107).

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*I will refer to the transcript for February 13, 1975, as "Volume XII". It is erroneously marked as "Volume XI".

Stephen R. Kaye, Esq. April 17, 1975

25. With respect to your request to be advised of the reasons for the deletions in PX 571, please be advised that the deletions were of information unrelated to Xerox' copier/duplicator business (Vol. XII, p. 78).

26. With respect to certain of your requests made for specific documents, we have looked and not found the documents requested. These requests were made in the following places in the deposition transcript:

(a) Vol. III, pp. 306-307

(b) Vol. III, p. 397

(c) Vol. III, p. 411

(d) Vol. IV, pp. 88-89

(e) Vol. VII, p. 97

(f) Vol. VIII, p. 90

As I have indicated, there are a number of documents responsive to your requests which are privileged. We will provide you with a list of these documents.

With the exception of certain of your requests at Vol. VI, p. 34; Vol. VII, p. 10; Vol. VII, p. 69; and Vol. IX, pp. 34-36, we have responded to all of the requests made at the deposition of Dr. Dessauer..

Sincerely,

Louis J. Maggiotto, Jr.

Louis J. Maggiotto, Jr.

cc: W. Thomas Fagen, Esq.

Encl.

Appendix A

PS 296
PS 1741-1892
PS 2095-2101
PS 2102-2109
PS 21189-21247
PS 22049-22053
PS 22444-22451
PS 90295-90299
PS 91330-91367
PS 91378-91379
PS 91459-91464
PS 91465-91473
PS 91680
PS 101387
PS 101390
PS 101391
PS 101392
PS 101393

SCM Interrogatories 4(c) and 4(d)

Item No. 4

For each such model:

(a) state the date on which it was first manufactured and whether it is still being manufactured today;

(b) state the date on which it was first marketed and whether it is still being marketed today;

(c) identify each patent ever used in it by inventor, number and date and country of issue;

(d) subject to such protective order as the Court may make on the agreement of the parties or otherwise, identify each presently pending patent application used in it by inventor, number and date and country of filing;

(e) state the revenues produced as a result of its marketing by Xerox in each of the years 1960 through 1972;

(f) state its average direct manufacturing cost and average full manufacturing cost in each of the years 1960 through 1972;

(g) state the number in use as of December 31 of each of the years 1960 through 1972 (or, if unavailable at that date, as of another date in each of those years);

(h) state the number of copies made by it in each of the years 1960 through 1972;

(i) state the average number of copies made per individual machine in each of the years 1960 through 1972;

(j) state its actual (or if unavailable, estimated) average useful life in terms both of years and number of copies made; and

D. STATUTES CITED IN BRIEF

15 U.S.C. 1

Trusts, etc., in restraint of trade illegal; exception of resale price agreements; penalty

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal: Provided, That nothing contained in sections 1 to 7 of this title shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trademark, brand, or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for such resale, and the making of such contracts or agreements shall not be an unfair method of competition under section 45 of this title: Provided further, That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other. Every person who shall make any contract or engage in any combination or conspiracy declared by sections 1 to 7 of this title to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or, if any other person, one hundred thousand dollars or by imprisonment not exceeding three years, or by both said punishments in the discretion of the court.

15 U.S.C. 2

Monopolizing trade a felony; penalty

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among

the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or, if any other person, one hundred thousand dollars or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

15 U.S.C. 18

Acquisition by one corporation of stock of another

No corporation engaged in commerce shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no corporation subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of another corporation engaged also in commerce, where in any line of commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly.

No corporation shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no corporation subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of one or more corporations engaged in commerce, where in any line of commerce in any section of the country, the effect of such acquisition, of such stocks or assets, or of the use of such stock by the voting or granting of proxies or otherwise, may be substantially to lessen competition, or to tend to create a monopoly.

This section shall not apply to corporations purchasing such stock solely for investment and not using the same by voting or otherwise to bring about, or in attempting to bring about, the substantial lessening of competition. Nor shall anything contained in this section prevent a corporation engaged in commerce from causing the formation of subsidiary corporations for the actual carrying on of their immediate lawful business, or the natural and legitimate branches or extensions thereof, or from owning and holding all or a part of the stock of such subisidiary corporations, when the effect of such formation is not to substantially lessen competition.

Nor shall anything herein contained be construed to prohibit any common carrier subject to the laws to regulate commerce from aiding in the construction of branches or short

lines so located as to become feeders to the main line of the company so aiding in such construction or from acquiring or owning all or any part of the stock of such branch lines, nor to prevent any such common carrier from acquiring and owning all or any part of the stock of a branch or short line constructed by an independent company where there is no substantial competition between the company owning the branch line so constructed and the company owning the main line acquiring the property or an interest therein, nor to prevent such common carrier from extending any of its lines through the medium of the acquisition of stock or otherwise of any other common carrier where there is no substantial competition between the company extending its lines and the company whose stock, property, or an interest therein is so acquired.

Nothing contained in this section shall be held to affect or impair any right heretofore legally acquired: Provided, That nothing in this section shall be held or construed to authorize or make lawful anything heretofore prohibited or made illegal by the antitrust laws, nor to exempt any person from the penal provisions thereof or the civil remedies therein provided.

Nothing contained in this section shall apply to transactions duly consummated pursuant to authority given by the Civil Aeronautics Board, Federal Communications Commission, Federal Power Commission, Interstate Commerce Commission, the Securities and Exchange Commission in the exercise of its jurisdiction under section 79j of this title, the United States Maritime Commission, or the Secretary of Agriculture under any statutory provision vesting such power in such Commission, Secretary, or Board.

15 U.S.C. 29 (Before 1974 Revision)

Appeals to Supreme Court

In every civil action brought in any district court of the United States under any of said Acts, wherein the United States is complainant, an appeal from the final judgment of the district court will lie only to the Supreme Court.

28 U.S.C. 1291

Final decisions of district courts

The courts of appeals shall have jurisdiction of appeals from all final decisions of the district courts of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, and the District Court of the Virgin Islands, except where a direct review may be had in the Supreme Court.

28 U.S.C. 1292

Interlocutory decisions

(a) The courts of appeals shall have jurisdiction of appeals from:

(1) Interlocutory orders of the district courts of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, and the District Court of the Virgin Islands, or of the judges thereof, granting, continuing, modifying, refusing or dissolving injunctions, or refusing to dissolve or modify injunctions, except where a direct review may be had in the Supreme Court;

(2) Interlocutory orders appointing receivers, or refusing orders to wind up receiverships or to take steps to accomplish the purposes thereof, such as directing sales or other disposals of property;

(3) Interlocutory decrees of such district courts or the judges thereof determining the rights and liabilities of the parties to admiralty cases in which appeals from final decrees are allowed;

(4) Judgments in civil actions for patent infringement which are final except for accounting.

(b) When a district judge, in making in a civil action an order not otherwise appealable under this section, shall be of the opinion that such order involves a controlling question of law as to which there is substantial ground for difference of opinion and that an immediate appeal from the order may materially advance the ultimate termination of the litigation, he shall so state in writing in such order. The Court of Appeals may thereupon, in its discretion, permit an appeal to be taken from such order, if application is made to it within ten days after the entry of the order: Provided, however, That application for an appeal hereunder shall not stay proceedings in the district court unless the district judge or the Court of Appeals or a judge thereof shall so order.

28 U.S.C. 1651

Writs

(a) The Supreme Court and all courts established by Act of Congress may issue all writs necessary or appropriate in aid of their respective jurisdictions and agreeable to the usages and principles of law.

(b) An alternative writ or rule nisi may be issued by a justice or judge of a court which has jurisdiction.

U.S. v. Silverman
Petition for Rehearing

9

United States Court of Appeals

For the Second Circuit

Docket Numbers 33584
34392

UNITED STATES OF AMERICA,

against

MILTON SILVERMAN,

Appellant.

On Appeal from the United States District Court for the Southern District of New York

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APPELLANT'S PETITION FOR REHEARING AND REHEARING *EN BANC*

PAUL, WEISS, GOLDBERG, RIFKIND,
WHARTON & GARRISON
Attorneys for Appellant
345 Park Avenue
New York, New York 10022
935-8000

SIMON H. RIFKIND
EDWARD N. COSTIKYAN
THEODORE W. STRIGGLES
Of Counsel

United States Court of Appeals

For the Second Circuit

Docket Numbers 33584
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UNITED STATES OF AMERICA,

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MILTON SILVERMAN,

Appellant.

On Appeal from the United States District Court for the Southern District of New York

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APPELLANT'S PETITION FOR REHEARING AND REHEARING *EN BANC*

Milton Silverman, the appellant herein, respectfully petitions, pursuant to Rules 35 and 40 of the Federal Rules of Appellate Procedure, for rehearing and rehearing *en banc* of the decision of this Court rendered on July 1, 1970 (Sept. Term, 1969, slip opinion p. 3561), affirming in part and reversing in part a judgment of conviction of the United States District Court for the Southern District of New York (Palmieri, J.) rendered April 25, 1969, and affirming an order denying a motion for a new trial rendered December 12, 1969.

Statement of the Case

The defendant, appellant and petitioner here, was tried before a jury in the United States District Court for the Southern District of New York on an indictment charging him with (1) converting funds from two union locals of which he was an officer and employee, in violation of 29 U.S.C. §501(c) (counts 1 through 13); (2) converting a sum of money from an employee welfare benefit plan, in violation of 18 U.S.C. §664 (count 14); (3) making false statements in annual reports required to be filed by a union local of which he was an officer, in violation of 29 U.S.C. §439(b) (counts 15 through 17); and (4) causing false entries to be made in books required to be kept by the union locals, in violation of 29 U.S.C. §439(c) (count 18).

The jury convicted on all counts except counts 16 and 17, as to which the defendant was acquitted. The trial court sentenced the defendant to two consecutive terms of imprisonment of four months, the first on each of counts 1 through 15 concurrently, and the second on count 18 consecutively; in addition, the Court fined the defendant $1,000 on each count. The defendant duly appealed from the judgment of conviction. He also appealed from an order of the District Court denying a motion for a new trial arising from the discovery of an alibi defense with respect to the offense alleged in count 14. The appeals were consolidated, and on July 1, 1970, this Court reversed the convictions under counts 1 through 8 for insufficiency of the evidence, Judge Moore dissenting. Judges Friendly and Hays joined with Judge Moore in affirming the judgment of conviction on the remaining counts, as well as the order denying the new-trial motion.

Reasons for Granting Rehearing

1. *The defendant's trial was fundamentally unfair.* Throughout the proceeding the defendant objected to the prosecution's introduction of irrelevant, prejudicial evidence and argument. A majority of the Court of Appeals panel has recognized the force of these objections by noting that "[T]his trial seems to have been characterized by a degree of over-kill on the part of the prosecutor." (Slip opinion, p. 3604). In his main brief on appeal the defendant has documented the elements of prosecutorial misconduct—tying witnesses to the defendant as wrongdoers by pointing to their representation by a single lawyer and by eliciting the fact of their receipt of immunity in exchange for their testimony (Appellant's Brief, pp. 50-59); exposing the defendant's decades-old arrests, arising from unrelated offenses and resulting in no convictions (Br., pp. 59-70); conveying the impression that the defendant was a suspiciously wealthy, tax-evading, "cigar-smoking racketeer." (Br., pp. 11, 70-75);* and comparing the defendant to Adolph Hitler—an outrage cavalierly dismissed by the trial court as a mere "flight of eloquence." (Slip opinion, p. 3595).

To this catalogue must be added the evidence admitted at trial as relevant to the charges on which this Court has now directed a reversal. Those charges, set forth in the first 8 counts of the indictment, accused the defendant of converting union funds to his own use. In fact, as this Court recognized, the evidence at trial showed only that the defendant had acted on the authority of the union locals and for their benefit. In the guise of establishing the de-

* As the Court of Appeals for the Sixth Circuit recently had occasion to say, "[T]he prolonged recital of appellant's sybaritic living off his union's expense account could only prejudice a jury asked to consider whether he had embezzled its funds or falsified its financial records." *United States* v. *Greene*, 400 F.2d 847, 848 (6th Cir. 1968).

fendant's guilt on these charges, the prosecutor was permitted to argue that the defendant's power over the unions enabled him to use them "at his whim" (T. p. 2E); and that the amounts paid out exceeded those authorized. (T. pp. 1084-85). At times the prosecutor specifically invoked the related "false reporting" charge contained in count 15 as the crux of the offenses in the first 8 counts, thereby tarring parts of the conviction still outstanding as well as those already overturned. (T. pp. 2G, 686, 1087). At other times the trial court compounded error by calling the jury's attention to the poor financial condition of one of the union locals, implying that that situation was somehow related to the allegedly illegal contributions (although it involved other contributions not even alleged to have been embezzlements) and overlooking the defendant's uncontested explanation why the union, though wealthy, would want to remain nominally "in the red."

Such prejudicial conduct gains additional significance because some of the counts upon which the conviction was based have now been overturned. For although none of the matters here at issue should have come before the jury at all, they did so only because the trial court deemed them relevant to the charges contained in the first 8 counts. The reversal of the conviction on these counts removes all legitimate basis for exposing the jury to the prosecutor's innuendoes and the trial court's unfair commentary and increases the prejudice.

As demonstrated in the defendant's main brief, the trial record abounds with prosecutorial efforts to establish the defendant's domination and control of the activities of the two union locals in question. As all three members of the Court of Appeals panel recognized, "The danger in admitting evidence of this sort is that the jury may infer that the possession of such power is evidence of bad char-

acter."/(Slip opinion, p. 3593). (This is in itself a startling irrationality. Is the Mayor's possession of power evidence of his bad character? The President's? The head of a corporation? It was not the possession of power which was relied upon to evidence bad character, but rather the repeated innuendoes, charges and claims of abuse of power —cigars, expense accounts, and Adolph Hitler.) / The Court has nevertheless indirectly acknowledged the validity of the defendant's principal contention—that the Government tried and won this case on the theory that the defendant was a "bad man."

A candid sensitivity to the "prosecutorial over-kill" reflected in the prosecutor's persistent recourse to prejudicial evidence compels, we submit, not a restrained expression of displeasure with the conduct of Government counsel, but reversal of the conviction on all counts. /

2. *The defendant's conviction rests on a breach of the attorney-client privilege.* The Court of Appeals panel has sanctioned a unique and startling departure from the law governing the privilege that surrounds confidential communications between a client and his attorney. The defendant's conviction under counts 10 through 15, as well as under count 18, rests upon the receipt in evidence of advice given the defendant by legal counsel. That advice related to union records claimed by the Government to reveal illegal expenditures and also to have been falsified. Counsel was retained to examine the records before their production in compliance with a grand-jury subpoena. He submitted a report to his client in which he stated, "There is a loan to Milton Silverman in December 1965 and there is no approval of this loan by the Executive Board. There is a payment of $2,000 to Mr. Silverman in December 1965 for Christmas gifts and this requires an accounting of where the money was spent." (Slip opinion, p. 3589). The gov-

ernment not only subpoenaed this report, but introduced it at trial to demonstrate that union minutes had been altered to supply an otherwise absent authorization of a loan to the defendant.

On appeal, this Court has upheld the admission of the lawyer's report on the theory that it merely related the status of the union documents at the time counsel viewed them, and that since those documents were a matter of public record, admission of a description of this condition as viewed by counsel breached no confidential communication from the defendant.

In so holding, the Court has violated the very rule of confidentiality it purports to follow. The law has been thought to be clear for generations that the communication of a client to his attorney and the attorney's advice thereon may not be disclosed without the client's consent. This Court has sanctioned the compelled disclosure of both the client's communication to the attorney and the attorney's written advice thereon, although the client—whether it was the defendant or the union, or both—admittedly failed to consent and, indeed, objected to such disclosure.

In so holding, this Court has placed itself in conflict with every recorded authority in every court, in every jurisdiction, which purports to recognize the attorney-client privilege.

The tortured rationalization which has led to this result may at first blush perhaps obscure the bald result. The Court below justified the breach of the privilege, in substance, on the utility of the privileged evidence to support the prosecution's case. But, of course, such privileged evidence is always highly relevant to one side or another.

This Court has, in effect, held that if the fact disclosed by the client to the attorney is a matter of public record ("My wife was murdered last night. It is in *The New York Times.*"), the disclosure is not protected. In so hold-

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ing, the Court created a novel and dangerous exception to the attorney-client privilege which suggests that only *secrets* which are disclosed by the client to the attorney are privileged. Presumably any disclosed fact that others know ("My 16 partners and I have kept a false set of books for 15 years. Here they are.") or that the public generally knows ("My wife was killed last night") is not a secret. Even if the exception is limited to facts of public record an inhibiting, if not crippling, limitation of the scope of the privilege has been created—a limitation which no layman and few lawyers will have in mind during consultations. And the disclosures not thus protected may be pieces of evidence which convict a defendant, as they did here, where he would not have been convicted but for his disclosures to his lawyer.

No justification for this startling result can be found by urging that the facts disclosed in violation of the privilege did not constitute an admission of guilt, but merely related to the condition of minutes of a meeting at the time counsel viewed them. Certainly the privilege protects attorney-client communications which constitute an admission of guilt. But the privilege goes farther. It protects all facts disclosed, and the fact of disclosure—no matter how those facts may be relevant or to what proposition, and no matter whether they be secrets, or known by a few, or matters of public record. For the fact that a client disclosed a fact of public record to an attorney during a consultation may itself be evidence in some way leading to an inference of guilt.

We also submit that in the case at bar the breach of the privilege can not be justified on the ground that the facts disclosed were relevant only to collateral matters—such as the contents of a piece of paper—and did not constitute an admission of guilt *per se*. The Court's opinion we believe creates a dangerous new exception to the privilege by sug-

gesting that if a client discloses a fact—secret or notorious —which is less than an admission of guilt but part of a group of facts upon which he is convicted, the privilege does not apply.

Not only has a dangerous exception been created as to the aspect of the rule which protects the client's disclosure, but the part of the rule protecting the attorney's advice has been totally disregarded. The admissibility of the attorney's advice has been sustained without a word to explain why what he said was not as sacrosanct as he and his client believed when they communicated. Rather the Court suggests that the protection of the attorney's advice from disclosure is merely "* * * to prevent adopted admissions or inferences of the tenor of the client's communication." (Slip opinion, p. 3591).

But the protection of the attorney's advice to his client has never been so limited. The suggestion that the attorney's advice is unprotected so long as it does not lead to an inference as to what the client told the lawyer, besides being wholly novel, would totally eliminate the freedom of the lawyer to ruminate and to advise. Would his volunteered counsel, which would not reveal what the client had told him ("Do nothing until you hear from me") be unprotected and admissible when the client disregarded the advice and did something? Consider what inferences a jury might draw from such evidence.

Moreover, no lawyer could freely advise knowing that anything he said which did not disclose "the tenor" of the client's communication to him was unprotected. No lawyer could conceivably concentrate on making that determination before he spoke and at the same time freely and fully advise his client.

Under this Court's decision, a lawyer can no longer say to a frightened client, "Everything you tell me and everything I tell you is privileged." Lawyers can not function

as they should without confidence that such an explanation of the privilege to a client is in fact true.

Moreover, even under this new exception, which permits disclosure of the attorney's advice to the client unless it discloses the tenor of the client's communication to the attorney, the Court erred. The significance of the attorney's advice here lies not only in its factual narration of the contents of the documents, but in its tacit concession that the defendant in fact came to seek counsel to inquire into the legal status of those documents. Indeed, the jury may well have taken the seeking of counsel's advice as establishing both the state of the union's records before their surrender to the Government and the defendant's guilty state of mind when he came to his attorney for advice.

Finally, the Court engages in sophistry when it concludes that "communications of this [confidential] type [*all* communications to the attorney have, until now, been thought to be confidential] were not revealed or even sought to be revealed." (*Id.*, p. 3590). The defendant's confidential communication to his attorney is precisely what the report does reveal.

The holding in this case effectively repudiates the decision of another panel of the Court. In *Colton* v. *United States*, 306 F.2d 633, 639 (2d Cir. 1962) (Lumbard, C.J., Swan, Kaufman, JJ.), *cert. denied*, 371 U.S. 951 (1963), the Court stated the rule to be that "the attorney-client privilege protects * * * those papers prepared * * * by the attorney to record confidential communications * * *." Here there can be no question that counsel's report records his client's communication to him. Yet the Court has permitted the introduction of the report in evidence, apparently on the theory that even if *Colton* requires exclusion of the document, the rule there stated vanishes whenever ome other basis appears on which the document might be

admitted. But the privilege always excludes evidence otherwise admissible.

The new hostility to the privilege reflected in the Court's efforts to devise an escape hatch from the traditional rule jeopardizes the confidentiality, and hence the frankness and candor, of every attorney's communications with his clients and every client's communication with his attorney. No such result, we submit, should be countenanced without the concurrence of the full court.

3. *The indictment failed to state a federal offense.* The first 15 counts on which the defendant went to trial—and on which he was convicted—failed to allege that the pertinent labor organizations were engaged in an industry affecting commerce, as required by the applicable federal statute. The indictment fails to demonstrate, as we believe it must, that the grand jury charged all essential elements of the crime. Moreover, nothing in the record indicates that the grand jury ever knew that the involvement of interstate or foreign commerce was an essential element of the charged offenses (if they knew it, but did not charge it, the indictment is clearly bad); nothing indicates the grand jury even heard any evidence bearing on the point. There is thus no assurance—let alone the traditionally necessary assurance of words in an indictment—that the grand jury properly performed its historic function as a body of laymen confronted with evidence sufficient to warrant their charging the defendant with a federal criminal offense. There is merely speculation, rationalization and assumption.

The Court has not met the defendant's contention on this issue. Instead, it has speculated on what the grand jury *might* have considered. Thus, the Court says, "It was established that both unions [of which the defendant was an official and employee] were certified representatives

of employees under the provisions of the National Labor Relations Act. Pursuant to 29 U.S.C. §402(j)(1), this fact requires that the unions shall be deemed labor organizations engaged in an industry affecting commerce." (Slip opinion, p. 3565). The Court correctly recites the statutory presumption, but nothing in the record—the critical document being the indictment—indicated the grand jury knew of it.

A similar deficiency undermines the argument that the grand jury must have known of the commerce requirement because the applicable statute includes the element in its definition of the term "labor organization." (*Id.*, p. 3568). Nothing indicates the grand jury was aware of the statutory definition or was using it, and nothing supports the Court's argument that "the use of that term of art in the indictment necessarily implies that the essential element of interstate commerce is charged in the indictment." (*Ibid.*). To the contrary, the grand jury, for all we know, and for all that the indictment says, could have been just as aware that the definition of "labor organization" in the basic statute governing federal labor relations contains no such commerce requirement.*

The Court also argues that "The events described in the indictment were quite specific as to the dates of the transactions, the amounts involved and the parties from whom the funds were taken. Such allegations were sufficient to guard against giving improper discretion to the court and the prosecutor to vary the trial proof from the theory upon which the indictment was based." (*Id.*, pp. 3568-69). This may be true. But it too does not meet the proposition, con-

* Section 2(5) of the National Labor Relations Act, 29 U.S.C. §152(5), defines a labor organization as "any organization of any kind, or any agency or employee representation committee or plan, in which employees participate and which exists for the purpose, in whole or in part, of dealing with employers concerning grievances, labor disputes, wages, rates of pay, hours of employment, or conditions of work."

sistently advanced by the defendant, that so far as the record reveals—the critical record being the indictment—the grand jury was ignorant of the commerce requirement. It may be that "[t]he specification of the unions involved protects Silverman from the evils of facing charges not made before the grand jury" (*Id.*, p. 3569), but the defendant does not claim that the grand jury charged him with one offense while the prosecutor tried him on another. Rather, the defendant urges that the grand jury failed to charge him with any offense at all.*

The Court stresses that the present indictment merely tracks the language of the statute allegedly violated by the defendant (*Id.*, p. 3564). At the same time, the Court concedes that "the requisite connection with interstate commerce" is an essential element of the crime charged (*Id.*, p. 3565). The Court thus upholds the validity of an indictment that does no more than incorporate the statutory language, even though that language admittedly does not contain all the elements of the offense. In so ruling, the Court has abrogated a doctrine of long standing in this Circuit, *United States* v. *Guterma*, 189 F. Supp. 265, 270 (S.D.N.Y. 1960), and has brought itself into conflict with the principle followed in others. The Court of Appeals for the Fifth Circuit has stated, "An indictment or information in the language of the statute * * * ordinarily is sufficient, *except where the words of the statute do not contain all of the essential ele-*

* The Court does not advance its position by pointing to the fact that the grand jury appropriately alleged the involvement of commerce in count 18 of the indictment. That count does refer specifically to "labor organizations engaged in an industry affecting commerce * * *." From this, the Court concludes, "It would be absurd to think that the grand jury could have found such a fact on count eighteen and have been in ignorance of it when they indicted on the other counts." But the finding of the essential fact of commerce in count 18 points to precisely the opposite conclusion from that reached by the Court: it indicates that the grand jury, fully aware of the relevance and importance of the commerce requirement in count 18, found no such evidence with respect to the offenses charged in any of the first 15 counts, or were unaware of the significance of such evidence.

ments of the offense; but if the statute omits an essential element, the indictment must supply it with certainty." *Honea* v. *United States*, 344 F.2d 798, 804 (5th Cir. 1965) (emphasis supplied). The Fifth Circuit recognizes that "One of the laudable reforms of the Federal Rules of Criminal Procedure was to eliminate the necessity for much of the cumbersome claptrap which typically encased the common law indictment * * *. Yet 'the substantial safeguards to those charged with serious crimes cannot be eradicated under the guise of technical departures from the rules.' *Smith* v. *United States*, 1959, 360 U.S. 1, 9 * * *." 344 F.2d at 804. *See also United States* v. *Farabee*, 411 F.2d 1210, 1211 (5th Cir. 1969); *United States* v. *Duran*, 411 F.2d 275, 278 (5th Cir. 1969). The Court of Appeals for the District of Columbia has likewise adopted the rule that "While an indictment or information which follows the language of the statute defining the offense is ordinarily sufficient, this is not the case if an essential element of the offense is not contained in the statutory language." *Williams* v. *District of Columbia*, 419 F.2d 638, 647 (D.C. Cir. 1969) (*en banc*).

The departure from a hitherto settled rule of law in this Circuit requires review by the Court to insure the orderly administration of criminal justice. The conflict with at least two sister Courts of Appeals should prompt reconsideration of the course upon which this Court has embarked.

Conclusion

For the reasons set forth above, as well as for those urged in the defendant's briefs on appeal, the defendant urges the Court to grant rehearing and to reverse the judgment of conviction in its entirety.

Respectfully submitted,

PAUL, WEISS, GOLDBERG, RIFKIND,
WHARTON & GARRISON
Attorneys for Appellant
345 Park Avenue
New York, New York 10022

SIMON H. RIFKIND
EDWARD N. COSTIKYAN
THEODORE W. STRIGGLES
Of Counsel

July 28, 1970.

76-3017

United States Court of Appeals
FOR THE SECOND CIRCUIT

Docket No. 76-3017

XEROX CORPORATION,

Defendant-Appellant,

against

SCM CORPORATION,

Plaintiff-Appellee.

Appeal from an Order of the United States District Court for the District of Connecticut entered February 4, 1976, and reaffirmed March 9, 1976

Docket No. 76-7131

XEROX CORPORATION,

Petitioner,

against

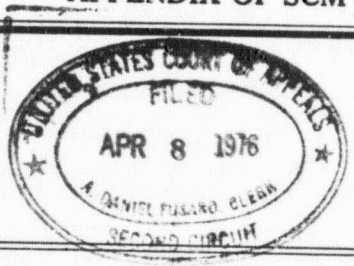
HON. JON O. NEWMAN, Judge of the United States District Court for the District of Connecticut, and SCM CORPORATION,

Respondents.

Petition for Writ of Mandamus Pursuant to 28 U.S.C. § 1651 and Fed.R.App.P. 21

B
P/S

APPENDIX OF SCM CORPORATION



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Pre-Trial Ruling No. 17.

UNITED STATES DISTRICT COURT
DISTRICT OF CONNECTICUT

CIVIL No. 15,807

SCM CORPORATION

v.

XEROX CORPORATION

Plaintiff SCM has moved pursuant to Rule 37, Fed. R. Civ. P., for an order compelling responses to numerous interrogatories, deposition questions, and document requests; defendant Xerox claims the attorney-client privilege. The assertion of privilege arises in several different contexts.

Xerox-Rank Organisation Negotiations

The first context concerns negotiations between Xerox and its joint venturer, The Rank Organisation [Rank], in 1968-69. SCM seeks to require Xerox personnel to disclose what they discussed during those negotiations. At that time Xerox and Rank each had a 50% interest in the joint venture, and were negotiating Xerox's acquisition of voting and managerial control. The parties appear to assume that the substance of the statements by Xerox personnel were sufficiently related to the obtaining of legal advice to be protected by the attorney-client privilege. The issue is whether the privilege was lost because of the discussions held with Rank personnel in which that information was revealed. This requires consideration of whether Rank and Xerox had

sufficiently common interests in the subject of the otherwise privileged information to warrant maintaining the privilege, or whether the disclosure to Rank defeated the requirement of confidentiality.

It is apparent from the affidavit of C. Peter McColough, then Chief Executive Officer and President of Xerox, that the statements claimed to be privileged consist of antitrust analysis by Xerox's attorneys. The key question becomes how Rank was interested in those considerations.[1] Xerox has not established that the discussions with Rank revolved around the possibility of shared exposure to antitrust liability. Instead, it appears that Rank was only indirectly concerned with Xerox's antitrust posture in that Xerox was a joint venturer. As McColough testified, the meetings and statements discussed "legal considerations affecting Xerox as they related or as they might relate to the matters being negotiated." McColough Deposition, Tr. 2251-52 (May 1, 1975). Rank's interst in the negotiations does not appear to be that of a potential co-defendant in a possible antitrust action. Rather, it was negotiating the price for relinquishing voting and managerial control in Rank-Xerox to its formerly equal partner. On that issue the parties were not commonly interested, but adverse, negotiating at arm's length a business transaction between themselves.

The differing business interests of Xerox and Rank are apparent from the course of the 1968-69 negotiations. The communications in question took place during protracted negotiations between joint venturers, but were not directed at advancing the joint interest vis-a-vis the rest of the world. Instead the parties were negotiating a business proposition between themselves. That the overall profit-

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[1] Note, *Waiver of Attorney-Client Privilege on Inter-Attorney Exchange of Information*, 63 Yale L.J. 1030, 1035 (1954).

ability of the joint enterprise was a general consideration in which both parties' interests converged does not lessen the significance of their divergent interests. Their interests regarding antitrust considerations were not sufficiently common to justify extending the protection of the attorney-client privilege to their discussions. McColough is, therefore, instructed to answer the four questions asked of him and now in dispute. McColough Deposition, Tr. 2240, 2252-54 (May 1, 1975).

The cases relied upon by Xerox are distinguishable. In *Continental Oil Co.* v. *United States,* 330 F.2d 347 (9th Cir. 1964), the exchange of information about grand jury questioning occurred among potential co-defendants. In *Hunydee* v. *United States,* 355 F.2d 183 (9th Cir. 1965), the pre-indictment conference was held to apprise each defendant of the other's situation and intended plea. The court treated the exchange as intended to facilitate representation in the coming proceedings and apparently considered the matters of common interest to predominate over the adversity between the interests of the parties. The impending indictment of both parties as participants in the same illegal transaction presented a situation that justified applying the privilege to conversations with their attorneys at a conference between them, as if they were co-defendants. The interests of Xerox and Rank do not approach that level of common defense.

In *Stanley Works* v. *Haeger Potteries, Inc.,* 51 F.R.D. 551 (N.D. Ill. 1964), and *Burlington Industries* v. *Exxon Corp.,* 65 F.R.D. 26 (D. Md. 1974), courts considered the parties' interests in joint licensing programs sufficiently in common to justify protecting communications between the interested parties in preparation for trials in which their common business interests were involved.

Each of the protected communications in cases cited by Xerox was an instance in which the parties were involved

in or anticipating litigation. The privilege need not be limited to legal consultations between corporations in litigation situations, however. Corporations should be encouraged to seek legal advice in planning their affairs to avoid litigation as well as in pursuing it. The timing and setting of the communications are important indicators of the measure of common interest; the shared interest necessary to justify extending the privilege to encompass intercorporate communications appears most clearly in cases of co-defendants and impending litigations but is not necessarily limited to those situations.[2]

Xerox-Battelle Antitrust Discussions

Xerox asserted the attorney-client privilege when Sol M. Linowitz, former Xerox counsel and former member of its Board of Directors, was asked about a discussion he had with Battelle executives on the subject of antitrust. Xerox and Battelle may be considered to have shared sufficiently common interests in the exploitation of certain xerography patents so that the attorney-client privilege would appropriately apply and protect their joint discussions on topics of common interest. *Cf. In re Yarn Processing Patent Litigation,* 177 U.S.P.Q. 514 (S.D. Fla. 1973); *Burlington Industries* v. *Exxon Corp. supra; Stanley Works* v. *Haeger Potteries, Inc., supra.* But their individual postures relevant to the antitrust discussions in point are undefined. In order for the Court to make an informed determination, Linowitz is directed to submit to the Court for its *in camera* inspection his affidavit setting forth his best recollection of conversations he had with John Gray and John Crout, Battelle executives, in which

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[2] *See* Note, *The Attorney-Client Privilege in Multiple Party Situations,* 8 Colum. J.L. & Soc. Prob. 179, 189 (1972).

antitrust matters were discussed during the period prior to the 1956 Xerox-Battelle agreement. See Linowitz Deposition, Tr. 421 (Oct. 10, 1975). This recounting of what each man said should assist the Court in determining whether the interests of their respective companies were sufficiently in common with regard to the particular issues discussed to justify application of the privilege.

The deposition question asked of Linowitz on July 2, 1974, at page 193 concerning the Rochester meeting should be answered. The discussion between Joseph Wilson and Linowitz of Xerox and Crout of Battelle recounted discussions that had taken place before the first Xerox-Battelle agreement. There has been no showing of common interest, or of legal consultation at that discussion. While the question was not renewed in all its parts at the time of the deposition, SCM has pressed it on this motion. Since the claim of privilege is denied, the question should be answered. Linowitz Deposition, Tr. 193 (July 2, 1974).

The Patent Committee

A related area of dispute is the applicability of the privilege to the committee of Xerox and Battelle representatives that considered the xerography patent structure. While all work of the committee is not necessarily privileged, the requisite common interest to satisfy the confidentiality aspect of the privilege appears to have been present on the subject of the development of xerographic technology and related patent rights. Chester Carlson, Battelle, and Xerox shared a business interest in the successful exploitation of certain patents. Whether the legal advice was focused on pending litigation or on developing a patent program that would afford maximum protection, the privilege should not be denied when the common interest is clear. *Cf.* 8 Wigmore § 2294 (McNaughton rev. 1961). In this setting of joint analysis and cooperative study, the

three parties' common interests in patent protection predominated. *Cf. In re Yarn Processing Patent Litigation, supra; Burlington Industries* v. *Exxon Corp., supra; Stanley Works* v. *Haeger Potteries, Inc., supra.* The Court has examined the excised portions of the Battelle memorandum requested during the deposition of Dr. John H. Dessauer on October 25, 1974, at page 380, and found them to concern litigation and patent matters. They remain protected. The letter from Linowitz to Frank Steinhilper, both Xerox attorneys, does not lose its privileged character because it requested preparation of a presentation to be shared with Battelle, nor because of the reference to the opinion of Carlson. PX 336A. The question asked of Dr. Dessauer on October 30, 1974, at page 19, calling for an evaluation of basic patent protection asks for legal advice and need not be answered.[3]

Patent Information

Xerox resists SCM's document request, Dessauer Deposition, Tr. 48 (Nov. 1, 1974), by asserting the attorney-client privilege but has failed to establish that the documents represent or reveal confidenital communications from client to attorney. On the contrary, the documents are memoranda prepared by attorneys in the Xerox patent

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[3] *See Inquiry into Reasons for Decisions and State of Mind, infra.*

The following question asked what Dr. Dessauer considered to be the "technical advantage." Dessauer Deposition, Tr. 19 ll. 9-20 (Oct. 30, 1974). That question appears to be directed at business considerations, *e.g.*, an evaluation of products with those of competitors. Dr. Dessauer did discuss that question later in his deposition testimony. *Id.* at 32-34. Dr. Dessauer should have also answered the earlier question now in dispute and is directed to do so.

department.[4] Ralabate Affidavit 3. They contain much public information (patent numbers, holders, dates of application and issuance), brief descriptions of the patents, and what Xerox characterizes as legal opinions regarding patent applicability. The public information is not protected. See *United States* v. *Silverman*, 430 F.2d 106, 121-22 (2d Cir. 1970); *United States* v. *United Shoe Machinery Corp.*, 89 F. Supp. 357, 359 (D. Mass. 1950). The technical information is probably discoverable as facts within the knowledge of Xerox. See *City of Philadelphia* v. *Westinghouse Elec. Corp.*, 205 F. Supp. 830, 831 (E.D. Pa. 1962). Legal departments are not citadels in which public, business or technical information may be placed to defeat discovery and thereby ensure confidentiality. See *Natta* v. *Zletz*, 418 F.2d 633, 637-38 (7th Cir. 1969). Whatever legal judgments are contained in the documents would merit protection, if at all, as work product, not by application of the attorney-client privilege. *Hickman* v. *Taylor*, 329 U.S. 495, 508 (1947).

Xerox's alternative claim to work product protection fails for another reason. Only PS 22049 and PS 91380 are specifically claimed to have been prepared in anticipation of litigation, Xerox Memorandum p. 165, and exam-

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[4] This discussion is particularly concerned with PS 91130, PS 91378, PS 1741, PS 21189, PS 90299, PS 91459, and PS 91465.

Other documents submitted for *in camera* inspection involve requests from third parties for lists of patents promised by legends on certain Xerox machines and Xerox internal communications in preparing its responses. PS 296, PS 101387, PS 101390, PS 101391, PS 101392, PS 101393. The internal documents were circulated between Xerox patent attorneys and the office of its general counsel. Legal opinions regarding patent coverage contained in these documents were ultimately revealed to the third parties and confidentiality thereby relinquished. The other content of the documents merely reveals the mechanics of responding to the intercorporate inquiry and does not merit the protection of the privilege.

ination of the other documents does not reveal any basis from which to infer that they were sufficiently connected to litigation to merit protection. While some authority exists for broadly construing how far litigation may be anticipated, see *Sylgab Steel & Wire Corp.* v. *Imoco-Gateway Corp.*, 62 F.R.D. 454 (N.D. Ill. 1974); *American Optical Corp.* v. *Medtronic, Inc.*, 56 F.R.D. 426 (D. Mass. 1972); *Stix Products, Inc.* v. *United Merchants & Manufacturing, Inc.*, 47 F.R.D. 334 (S.D.N.Y. 1969), no decision has stretched the concept to the extent requested here. A specific claim must have arisen to make the prospect of litigation identifiable in order for the work product rule to apply. See *Sylgab Steel & Wire Corp.* v. *Imoco-Gateway Corp., supra; Abel Investment Co.* v. *United States*, 53 F.R.D. 485 (D. Neb. 1971); *Technograph, Inc.* v. *Texas Instruments, Inc.*, 43 F.R.D. 416 (S.D.N.Y. 1967).

Xerox has failed to establish the strict applicability of either the attorney-client privilege or the work product doctrine. Nevertheless, this Court retains some hesitancy about forcing counsel to hand over documents concerning its patents to a party opponent. *Cf. Hickman* v. *Taylor*, 329 U.S. 495, 510 (1947). On this motion, the balance between discovery policies and hesitancy to unlock an adversary attorney's file will be struck in favor of disclosure. Here the requested documents reveal lists of patents and their commercial uses according to Xerox's patent department. Were this simply a patent case such discovery might not be allowed because, in listing patents, the lawyer's implicit judgments as to coverage might be significant. But in the context of this antitrust action the detail of the material to be disclosed may be probative without any regard to a lawyer's judgment as to the coverage of any particular patent. What will be important will be whether SCM can establish that Xerox retained a large number of unused patents. No claim to protection having

been sustained, the documents submitted in response to this discovery motion and so far discussed should be produced to SCM.

PS 22049 and PS 91380 are claimed to have been prepared in connection with a 1970 patent infringement suit. Once having been work product, these documents do not automatically lose that protection in subsequent litigation. *Duplan Corp.* v. *Moulinage et Retorderie de Chavanoz,* 487 F.2d 480 (4th Cir. 1973); see *Republic Gear Co.* v. *Borg-Warner Corp.,* 381 F.2d 551, 557 (2d Cir. 1967); *cf. Midland Investment Co.* v. *Van Alstyne, Noel & Co.,* 50 F.R.D. 134 (S.D.N.Y. 1973). It is not clear whether the series of patent infringement suits filed by Xerox against IBM has been concluded or whether the underlying dispute has been settled. So, while this antitrust action was not the litigation "viewed" by Xerox attorneys preparing these papers, the legal opinions and facts contained therein may remain protected as work product. Compare *Republic Gear Co.* v. *Borg-Warner Corp., supra,* with *Duplan Corp.* v. *Moulinage et Retorderie de Chavanoz,* 509 F.2d 730 (4th Cir. 1974), *cert. denied,* 420 U.S. 997 (1975). Furthermore, SCM has not demonstrated substantial need for these specific materials, nor any undue hardship in being able to obtain substantially equivalent information. Fed. R. Civ. P. 26(b)(3).

The interrogatories present somewhat different questions. Interrogatory 62 asks for (a) identification of each patent used in Xerox duplicators and (b) identification of each presently pending patent application. It is uncontested that from the 1950's until approximately January, 1972, when a change in policy was implemented, Xerox had affixed data plates to its machines either listing the patents used or representing that a list of patents used in that machine would be supplied upon request. That policy and the reinforcing testimony of Linowitz establish that such

patent information was not intended to be kept confidential during that time period, and it is not now protected. Xerox should answer interrogatory 62(a) as it relates to models that bore such legends. See 8 Wigmore, *supra,* § 2311.

Xerox need not express its opinions as to which patents were used in its machines after January, 1972, when a change in its policy of disclosure was implemented, nor as to duplicators that never carried a legend promising disclosure. Xerox's responses to third-party requests for patent information before the change in policy did not include the listing of patents pending, and there is no indication that Xerox ever intended to make public its opinions concerning which pending patents were employed in its products. That information need not be disclosed now. These aspects of the interrogatory requests not simply duplicative of the document discovery would require Xerox to formulate opinions not required to particularize any of its own claims. It is also the type of burdensome trial preparation that Xerox need not undertake for SCM, especially in light of the document discovery being granted. See Pre-Trial Ruling No. 12 at 3 (May 29, 1975). Similarly, interrogatory 63 need not be answered—it concerns Rank-Xerox and Fuji-Xerox duplicators.

Inquiry into Reasons for Decisions and State of Mind

In this group of questions the issue is whether SCM may ask for reasons underlying particular decisions or actions when the answer will reveal legal advice received and thereby disclose a privileged conversation between client and attorney. Communications by the attorney to the client in the consultation process are privileged when they state or imply facts communicated to the attorney in confidence. See *United States* v. *Silverman, supra,* 430 F.2d at 122. The claims to privilege by Xerox executives will not be

circumvented by framing the question to request reasons for a decision when there is every indication that those reasons are *limited* to reliance on protected legal advice. It is true that a client's knowledge of facts may not be cloaked under the attorney-client privilege by incorporating a statement of those facts in a communication to the attorney. But privileged advice does not lose its protection when the client adopts it. To allow a litigant to probe beyond the assertion of privilege to the substance of the legal advice because the client takes the advice to heart and acts upon it would effectively circumvent the protection of the privilege. For this reason when a deponent answered a question about his reasons by saying that he was only relying on his attorney's legal advice, that answer is a sufficient response. Dessauer Deposition, Tr. 71 (Dec. 5, 1974); Linowitz Deposition, Tr. 568 (Nov. 25, 1974).

Along the same lines, when SCM asked for considerations or asked questions to elicit what it characterizes as a state of mind, and the response clearly indicated that the deponent was relying on legal advice, the attorney-client privilege will apply. McColough Deposition, Tr. 922 (June 26, 1974), 967 (Sept. 20, 1974), 1648 (Dec. 20, 1974); Dessauer Deposition, Tr. 19 (Oct. 30, 1974).[5]

A related problem arises with respect to a group of deposition questions asking McColough for the reasons or considerations involved in decisions to grant or refuse licenses; he responded that the business and legal reasons were so interwoven that he could not answer without disclosing privileged conversations. By contrast to the groups of questions just discussed, to which a deponent responded that he relied upon the advice of counsel, in his answers McColough recognized that both legal and business con-

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[5] It is apparent that the response to the question asked Dr. Dessauer on April 23, 1975, at 29-30, would encounter the same claim, reliance on legal advice.

siderations were involved. The mere mention of business considerations is not enough to compel the disclosure of otherwise privileged material. See *United States* v. *United Shoe Machinery Corp., supra,* 89 F. Supp. at 359. Here it is not clear that the decisions were the type in which business personnel defer to the recommendation of legal staff. Licensing decisions may contain a legal component, but are not inherently dependent on legal advice; they are essentially business decisions. Legal advice should remain protected along with "nonlegal considerations" discussed between client and counsel that are relevant to that consultation, but when the ultimate decision then requires the exercise of business judgment and when what were relevant nonlegal considerations incidental to the formulation of legal advice emerge as the business reasons for and against a course of action, those business reasons considered among executives are not privileged. They are like any other business evaluations and motivations and do not enjoy any protection because they were alluded to by conscientious counsel. To protect the business components in the decisional process would be a distortion of the privilege. The attorney-client privilege was not intended and is not needed to encourage businessmen to discuss business reasons for a particular course of action. See Simon, *The Attorney-Client Privilege as Applied to Corporations,* 65 Yale L.J. 953, 955-56 (1956); *cf. City of Philadelphia* v. *Westinghouse Elec. Corp., supra.*

McColough has stated that he was concerned with both business and legal aspects of the licensing decisions. Since McColough was unable to separate these aspects he is ordered to answer the eight questions listed below in an affidavit to be submitted for *in camera* inspection and describe the decision making process so that the Court may determine whether the business considerations are the type of "relevant nonlegal considerations" incidental to legal

consultation referred to by Judge Wyzanski in *United States* v. *United Shoe Machinery Corp., supra.* McColough Deposition, Tr. 251 (June 18, 1974), 1494, 1496-97, 1504-05 (Dec. 19, 1974), 1663 (Dec. 20, 1974), 1783 (Mar. 3, 1975), 1819, 1827 (Mar. 4, 1975).

Finally, the four questions asked to elicit the evaluation of business interests affected by the eventual expiration of the basic Carlson patents should be answered. Dessauer Deposition, Tr. 370 (Oct. 25, 1974), 71 (Oct. 31, 1974); Linowitz Deposition, Tr. 525, 527 (Nov. 25, 1974). While those business interests might ultimately be influenced by the strictures of law, basic *business* effects, considerations, and policy should be disclosed. The substance of particular legal advice is not ordered to be revealed; patent or antitrust advice from counsel may remain undisclosed.

Communications Between Executives[6]

This group of questions involves communications between Xerox executives. A privileged communication should not lose its protection if an executive relays legal advice to another who shares responsibility for the subject matter underlying the consultation. See *Sylgab Steel & Wire Corp.* v. *Imoco-Gateway Corp., supra,* 62 F.R.D. at 456; *United States* v. *Aluminum Company of America,* 193 F. Supp. 251, 253 (N.D.N.Y. 1960). It would be an unnecessary restriction of the privilege to consider it lost when top management personnel discuss legal advice. For this reason Dr. Dessauer's claim to privilege on November 1, 1974, page 58, is sustained.

As previously discussed however, business factors relevant to a corporate decision are not entitled to protection

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[6] Xerox has withdrawn its claims to privilege for the documents requested at Dr. Dessauer's deposition on October 30, 1974, at page 67, and February 12, 1975, at page 94.

unless they are merely incidental considerations helping to inform the legal advice. When the ultimate corporate decision is based on both a business policy and a legal evaluation, the business aspects of the decision are not protected because legal considerations are also involved.

Dr. Dessauer was asked a series of questions about the discussions that led to his vote authorizing the acquisition of Rank-Xerox stock from Rank. Dessauer Deposition, Tr. 89 l. 20, 90 (Apr. 23, 1975). Were the discussions intended to communicate confidential legal considerations, he would possess a valid claim to privilege since his testimony was that no business reasons for the purchase were shared with him that he could recall. See *id.* at 88 l. 5, 90 l. 19, 91 l. 17. Since those legal considerations appear to have been shared with Rank, however, the requisite confidentiality is lacking, and Dr. Dessauer is directed to answer the questions.[7]

McColough's conversations with Wilson about potential future antitrust problems took place against a background suggesting that they were discussing the recent recommendation of their corporate counsel concerning licensing policy and antitrust implications. A discussion between executives of legal advice should be privileged, McColough Deposition, Tr. 934 (Sept. 20, 1974). Similarly when McColough was asked what he knew and what Wilson had said about the scope of patent coverage and he answered that everything he and Wilson knew about Xerox's patent coverage came from its lawyers, the privilege attached. *Id.* 1730-32 (Mar. 3, 1975). That privilege would not extend blanket protection over Wilson's busi-

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[7] Ordinarily he would only have to answer a question asking his reasons for voting in a particular way as a director by revealing his business reasons. Dessauer Deposition, Tr. 89 l. 5 (Apr. 23, 1975). Here his reasons should also include the legal considerations that were shared with Rank during negotiations.

ness evaluations of the best way to proceed as an enterprise, however. Conversations between executives about the company's business policies are not protected. See *United States* v. *International Business Machines Corp.*, 66 F.R.D. 206, 210 (S.D.N.Y. 1974).

McColough was asked on June 19, 1974, at page 319, whether there had been any discussions of the impact of bringing a patent infringement suit on IBM's marketing efforts. The process leading to the decision whether to sue or not is the type of decision making process that requires the best informed recommendation of counsel and the fullest cooperation of the client. Still, discussions separate from substantive legal considerations that eventually feed into the corporate decision and are directed at the possibility of securing a business advantage should not be protected. The question should be answered.

Linowitz was asked a series of questions about discussions with Wilson concerning the readjustment of the Xerox-Battelle relationship. Linowitz's claim to privilege extends only to substantive legal discussions not shared with Battelle. Linowitz Deposition, Tr. 447 (Oct. 10, 1974). It is hard to see how the value Xerox placed on the rights to future technology developed by Battelle could be considered privileged since that value must have been a subject of negotiation with Battelle. The question asked of Linowitz on October 10, 1974, at page 460, should be answered. The question asked of him on November 25, 1974, at page 532, is moot.

Dr. Dessauer asserted the privilege when asked whether he had ever recommended that Xerox act to prevent another company from becoming a competitor. Dessauer Deposition, Tr. 72-74 (Dec. 5, 1974). In order to resolve the claim of privilege, Dr. Dessauer should submit for *in camera* inspection his affidavit setting forth the circumstances of any discussion in which he made such a recommendation, with whom he was speaking, and what he said.

Pre-Trial Ruling No. 17.

Waiver

In PX 89, a letter from Linowitz to Wilson reporting a meeting with an IBM executive and a discussion of licensing, 12 lines have been excised that contain legal evaluations by Linowitz. McColough Deposition, Tr. 959 (Sept. 20, 1974). SCM claims that PX 212 discloses the substance of Linowitz's advice and vitiates the protection otherwise attaching to that statement. Xerox argues that the crucial sentence in PX 212 was left in it through inadvertence. Xerox points to the fact that the initial production of the document to the FTC did not include the critical reference. Xerox's affidavits imply that after documents were screened for production to the FTC they were thereafter simply copied en masse and not examined again for privileged information. If that was the case, the somewhat troublesome claim of inadvertence will be accepted and the claim to privilege sustained. If the documents were, in fact, individually screened for privileged material before being forwarded to Litton, IBM, and SCM, the repeated inclusion of the statement would not be easily excused. On the state of the affidavits as they now stand, the claim of inadvertence is upheld and no waiver established. Accordingly, McColough need not answer the questions asked on June 26, 1974, at page 869, and on September 20, 1974, at page 957, of his deposition.

SCM's waiver argument is stronger concerning the Cole memorandum. McColough Deposition, Tr. 986 (Sept. 20, 1974). Recent testimony, Linowitz Deposition, Tr. 10-12 (Nov. 18, 1975), reveals that much of the substance of Whitney North Seymour's advice concerning IBM's licensing request, the subject of the memorandum, was shared with IBM. The disclosure goes to the substance and strategy of Seymour's analysis and is sufficient to constitute a waiver of the section of the Cole memorandum entitled *IBM*, at 3-4. McColough should also answer the

related question asked of him on June 26, 1974, at pages 867-68.

Dr. Dessauer's colloquy with counsel concerning whether he believed Xerox could take advantage of the patent system and the impact of antitrust laws did not waive any attorney-client privilege. Dessauer Deposition, Tr. 25-26 (Apr. 23, 1975). He merely testified that Xerox retained counsel and endeavored to follow his legal advice. The substance of those legal consultations may remain privileged. Dessauer Deposition, Tr. 30 (Apr. 23, 1975).

SCM asks, on the ground of waiver, that McColough be instructed to answer a question about Wilson's statements concerning the scope and extent of Xerox's patent coverage. As the factual predicate for this conclusion, SCM recites numerous public statements by Xerox executives. These statements are general, vague, and conclusory. In substance they reveal that Xerox thought patents important to its business, that Xerox held hundreds of patents, and that Xerox considered itself to be successfully pursuing a powerful patent position. These self-interested characterizations may have had some public relations benefit, but they hardly amount to a waiver. See *Bose Corp.* v. *Linear Design Labs, Inc.*, 71 Civ. 3103 (S.D.N.Y. Mar. 10, 1975).

SCM also urges waiver based on certain disclosures that Xerox claims were inadvertently made during extensive document production. On the basis of the Xerox affidavits, the inadvertence is sufficiently established to preclude the use of these disclosures as grounds for waiver. The claim to privilege is sustained, and related questions need not be answered. McColough Deposition, Tr. 1730 (Mar. 3, 1975).

The claim of waiver because of Wilson's letter to William Call, PX 370, stating that the whole Electrofax development was dominated by basic xerographic patent protection, is denied. Linowitz Deposition, Tr. 775 (Jan. 1, 1975). While more specific than the other statements of Xerox

executives, this disclosure does not rise to the level at which fairness would demand that the privilege cease. See Wigmore, *supra*, § 2327. Finally, SCM's claims of waiver as to infringement of Xerox patents are also denied. McColough Deposition, Tr. 251 (June 18, 1974), 1643 (Dec. 20, 1974).

The Court expects that the decisions expressed in this ruling will provide sufficient guidance to the parties to enable them to resolve any remaining disputes as to the availability of the attorney-client privilege. Obviously resort to the Court every time a deposition question encounters a claim of privilege is impractical. If hereafter an issue of privilege arises in a context reasonably governed by this ruling, and a party either asserts the privilege or claims its unavailability in contravention of the decisions in this ruling, significant sanctions will be imposed.

Dated at New Haven, Connecticut, this 4 day of February, 1976.

Jon O. Newman
United States District Judge

Pre-Trial Ruling No. 19.

DISTRICT OF CONNECTICUT

CIVIL No. 15,807

SCM CORPORATION

v.

XEROX CORPORATION

I.

This Ruling, prompted by Xerox's motion for reconsideration of certain aspects of Pre-Trial Ruling No. 17, concerns primarily the availability of the attorney-client privilege to protect disclosure of documents prepared by attorneys in Xerox's patent department. Xerox asserts privilege on the ground that these documents include legal opinions of its patent attorneys concerning the coverage of particular machines by specified patents. Whether reconsideration can produce the clarification Xerox seeks is in some doubt, but since the issue arises in a field plagued by vague and often inconsistent judicial decisions, it may be useful to attempt a further discussion of the problem.

1. An initial question is whether the privilege protects all advice from attorney to client, or only advice that reveals (by adoption or implication) a fact communicated in confidence by the client to the attorney. The narrow position was set forth with emphatic precision by Judge Wyzanski in his oft-cited opinion in *United States* v. *United Shoe Machinery Corp.*, 89 F. Supp. 357, 358 (D. Mass 1950) ("the communication relates to a fact of

which the attorney was informed (a) by his client (b) without the presence of strangers (c) for the purpose of securing primarily either (i) an opinion on law or (ii) legal services or (iii) assistance in some legal proceeding . . ."). Among cases explicitly adhering to this view are *Colton* v. *United States*, 306 F.2d 633, 637 (2d Cir. 1962); *United States* v. *International Business Machines Corp.*, 66 F.R.D. 206, 211-12, 215 (S.D.N.Y. 1974); *Bird* v. *Penn Central Co.*, 61 F.R.D. 43, 46 (E.D. Pa. 1973); *Sperti Products, Inc.* v. *Coca-Cola Co.*, 262 F. Supp. 148, 149, 151 (D. Del. 1966); *American Cyanamid Co.* v. *Hercules Powder Co.*, 211 F. Supp. 85, 87, 90 (D. Del. 1962).[1] See also McCormick, *Evidence* § 93 (1954).

The broader position, protecting any legal advice from attorney to client, is supported by Dean Wigmore, 8 Wigmore, *Evidence* § 2320 (McNaughton Rev. 1961), and has been stated in some decisions, *e.g.*, *Natta* v. *Hogan*, 392 F.2d 686, 692-93 (10th Cir. 1968); *American Optical Corp.* v. *Medtronics, Inc.*, 56 F.R.D. 426, 430 (D. Mass. 1972) (alternate holding). Other decisions such as *Jack Winter, Inc.* v. *Koratron Co.*, 54 F.R.D. 44, 46 (N.D. Cal. 1971), and *United States* v. *Aluminum Co. of America*, 193 F. Supp. 251, 253 (N.D.N.Y. 1960), have implied the use of a broad

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[1] It is pro ·ly fair to include in this category *8 in 1 Pet Products, Inc.* v. *Swift & Co.*, 218 F. Supp. 253 (S.D.N.Y. 1963). It states "the advice of counsel based upon the confidential communications of a client is privileged." *Ibid.* It also states "legal advice rendered to a corporation by an attorney in its employ falls within the attorney-client privilege." *Ibid.* This appears to be a statement that house counsel are within the scope of the privilege, without broadening the privilege to dispense with the requirement of advice based on confidential communications from the client. The citation to *United Shoe* points in that direction, although the citation to the broader rule stated in 8 Wigmore, *Evidence* § 2320 (McNaughton Rev. 1961) points the other way. *See also J. P. Foley & Co.* v. *Vanderbilt*, 65 F.R.D. 523, 526 (S.D.N.Y. 1974).

rule, but without noting whether or not the advice was based on a fact communicated by the client. That the advice was actually based on such a fact seems likely in some of these cases. Indeed, the *ALCOA* ruling states the broader rule but specifically cites the narrower *United Shoe* standard as "outlining the requirements to be shown by the party asserting the privilege." *Id.* at 252.

This split in authority is further complicated by two decisions within this Circuit. In *Georgia-Pacific Plywood Co.* v. *United States Plywood Corp.*, 18 F.R.D. 463 (S.D. N.Y. 1956), then District Judge Kaufman quoted Judge Wyzanski's formulation of the narrow standard and then observed, "Since communications by the attorney to the client might reveal the substance of a client's communication they are also within the privilege." *Id.* at 464. Again, the statement of a broader rule coupled with citation to the narrower *United Shoe* standard is perplexing. I think it unlikely that Judge Kaufman intended to abrogate the limitation contained in Judge Wyzanski's formulation, which he quoted at length. Perhaps Judge Kaufman meant only that if it is not clear whether the communication from the attorney relates to a fact disclosed to him by the client, the privilege should apply to guard against the *risk* of revealing client confidences. That approach would simply ease the client's burden of demonstrating that the privilege applies, but would not extend the privilege to communications from the attorney that demonstrably do not relate to facts disclosed by the client.

In *United States* v. *Silverman*, 430 F.2d 106 (2d Cir. 1970), the issue was the relatively easy one of whether the privilege protected against disclosure at trial of an attorney's report to a client union that disclosed minutes of a union meeting. The Second Circuit held that the report was not privileged since no confidential communication was involved, the minutes being public records. The uncertain significance of the decision arises from the inclusion and

subsequent deletion of a paragraph that specifically articulated the narrow standard, protecting communications from attorney to client only when they reveal confidential communications from client to attorney. *Id.* at 122. Upon petition for rehearing, the Court of Appeals deleted this paragraph from its prior opinion. *United States* v. *Silverman,* 439 F.2d 1198 (2d Cir. 1970). This was done "to avoid any . . . impression" that the earlier opinion made "an exception to the attorney-client confidential communication rules." *Ibid.* Xerox contends that the deletion demonstrates the Second Circuit's rejection of the narrow standard. I agree with Judge Edelstein that the deletion should not be given such significance. *United States* v. *International Business Machines Corp., supra,* 66 F.R.D. at 215. Neither the inclusion nor the deletion of the paragraph had any bearing on the *Silverman* holding, which rested entirely on lack of confidentiality. It is as likely that the paragraph was deleted because it was unnecessary as because it was an incorrect statement of the law. Or the Court may have been concerned that the deleted paragraph, describing attorney's advice as unprivileged unless it has the *effect* of revealing client confidences, stated the narrow standard too strictly; advice that risks disclosure of client confidences is entiled to protection, even under the narrow standard. See *Georgia-Pacific Plywood Co.* v. *United States Plywood Corp., supra.* Moreover, the *Silverman* opinion, even as unmodified, cited with approval the Court's prior decision in *Colton* v. *United States, supra,* which supports the narrow standard.

One other source of "guidance" should be noted. The Federal Rules of Evidence, as originally proposed by the Supreme Court, contained a detailed provision for the attorney-client privilege, which dispensed entirely with the qualification that the attorney's advice relate to facts communicated by the client. See proposed rule 503(b), 56 F.R.D. 183, 236 (1972). The proposed rule would have pro-

tected any confidential communication from attorney to client "made for the purpose of facilitating the rendition of professional legal services to the client." Inexplicably the Advisory Committee's Note does not discuss the two lines of authority on this point, nor even mention the choice implicitly made. While the proposed rules, even to the extent rejected by Congress, are nonetheless some evidence of "the principles of the common law" that are to govern privilege questions arising under claims founded on federal law, Fed. Rules Evid. Rule 501; see *Eutectic Corp.* v. *Metco, Inc.*, 61 F.R.D. 35, 38 n.1 (E.D.N.Y. 1973), I cannot accept proposed rule 503(b) as authoritative, especially in view of the total absence of any reasoned explanation from the drafters for resolving an unsettled question. See *Duplan Corp.* v. *Deering Milliken, Inc.*, 397 F. Supp. 1146, 1160-61 (D.S.C. 1974).

I see no reason to broaden the privilege beyond the narrow standard as set forth in *United Shoe*. The purpose of the privilege is to insure that the client may confide in his attorney to obtain legal advice. Unless the legal advice reveals what the client has said, no legitimate interest of the client is impaired by disclosing the advice. Wigmore's discussion of the broader standard concedes that it is not based on "any design of securing the attorney's freedom of expression." Wigmore, *supra*, § 2320, at 629. His rationale is twofold: to prevent use of the attorney's statements as admissions of the client or as revelations of the client's communication. The latter reason, of course, is safeguarded by the explicit requirement of the narrow standard. That same requirement seems adequate to protect against admissions entitled to protection. If the attorney's statement is based upon a fact communicated by the client, its use as an admission is barred by the availability of the privilege, even under the narrow standard. If the attorney makes an admission as agent for his client, without revealing a fact confidentially communicated from the

client, no reason appears why such admission should be protected.[2] Thus, Wigmore's reasons for adopting the broad standard are adequately satisfied by the narrow standard.

Whether the *Georgia-Pacific* qualification should be adopted is a closer question. Extending the privilege to communications from the attorney that "might" reveal client confidences reverses the normal approach that places the burden of establishing entitlement to the privilege on the client who claims it. On the other hand it does serve the purpose of the privilege by maintaining a client's ability to confide fully in his attorney. Without the protection for attorney communications that arguably contain client confidences, clients might be inhibited from confiding in their attorneys for fear that they might not be able to demonstrate that the attorney's communication was in fact based on their communication to him. The risk of such inhibition is virtually removed by holding the privilege unavailable when the attorney's communication is demonstrably based on facts that did not come from the client in confidence.

2. A second issue is whether the attorney's advice is privileged only when communicated to the client or when-

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[2] The discussion in the Wigmore treatise concerning the need to prevent the use of the attorney's statements as admissions of the client refers the readers to § 1071, which concerns adoption by silence of statements made in one's presence. That situation too is adequately protected by the narrow standard. If an attorney's advice were admissible only because it had been tacitly adopted by the client, the tacit approval (equivalent to a spoken approval) is a confidential communication from the client to the attorney that would be revealed by the attempt to make the attorney's advice admissible. If the attorney's advice is admissible without adoption by the client, or as in discovery, is useful to the adverse party without regard to whether it was adopted by the client, there is no reason to consider it privileged.

ever expressed in confidence, such as in a memorandum to his own file. *Hickman* v. *Taylor,* 329 U.S. 495, 508 (1947), provides at least the basic answer when it states: "Nor does this privilege concern the memoranda, briefs, communications and other writings prepared by counsel for his own use in prosecuting his client's case; and it is equally unrelated to writings which reflect an attorney's mental impressions, conclusions, opinions or legal theories." Accord *Natta* v. *Zletz,* 418 F.2d 633, 637-38 (1969); see also *Dura Corp.* v. *Milwaukee Hydraulic Products, Inc.,* 37 F.R.D. 470, 473 (E.D. Wis. 1965).

Of course, the attorney's opinion and legal theories, even if recorded in his own files, are privileged under the narrow standard of *United Shoe* if they reveal information supplied in confidence by the client. But absent such information from the client, it is only the work product rule and not the privilege that protects the attorney's uncommunicated expression of opinion.

3. A third issue concerns the role of in-house patent counsel. Judge Wyzanski observed in *United Shoe* that in view of the usual duties of a person in a corporate patent department, the relationship of such a person to the corporation is "not that of attorney and client." 89 F. Supp. at 361. Significantly he illustrates the non-privileged activity of such a person with the example of spending time on "questions . . . of the scope of public patents . . . ." Id. at 360. Subsequent cases have somewhat refined the broad statements in *United Shoe* by regarding the communications of in-house patent counsel as privileged or not, depending on what the attorney is doing in the particular communication being examined. *Jack Winter, Inc.* v. *Koratron Co.,* 50 F.R.D. 225 (N.D. Cal. 1970); *Chore-Time Equip., Inc.* v. *Big Dutchman, Inc.,* 255 F. Supp. 1020 (W.D. Mich. 1966); *American Cyanamid Co.* v. *Hercules Powder Co., supra; Zenith Radio Corp.* v. *Radio Corp.*

of America, 121 F. Supp. 792, 794 (D. Del. 1954) (no privilege when concern is with "scope of public patents"). The privilege is not available when the communication from in-house patent counsel does not apply rules of law to confidential communications received from the client, *Paper Converting Machines Co.* v. *FMC Corp.*, 215 F. Supp. 249, 252 (E.D. Wis. 1963), but this is because that type of communication is not privileged, not because the person transmitting it is (a) in-house, (b) a patent lawyer, or (c) doing what some might regard as nonlegal work.

In some situations the statements of in-house patent counsel might appropriately be viewed as privileged statements of the client.[3] This could occur, for example, if patent counsel assembled a list of patents owned by his company but not, in his opinion, being used, and sent that list to the general counsel or outside counsel with a request for advice as to whether the retention of the unused patents created risk of antitrust liability. While the patents are public, the patent attorney's opinion as to their non-use adds a non-public ingredient, which if communicated in confidence to seek legal advice might well be entitled to protection.

From this discussion it is apparent that the documents in issue are not entitled to protection. They do not reveal facts communicated by the client in confidence. To the extent they may express legal opinions, these concern

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[3] This appears to be the view expressed in *Dura Corp.* v. *Milwaukee Hydraulic Products, Inc., supra*, in which in-house patent counsel is described as "an employee of the [corporation] serving as its patent counsel." *Id.* at 472. Communications between him and outside counsel were accorded the privilege, though communications between the same outside counsel and the corporation's associate counsel were considered outside the privilege because they were not communications between attorney and client. *See also Duplan Corp.* v. *Deering Milliken, Inc., supra* at 1167; *Georgia-Pacific Plywood Co.* v. *United States Plywood Corp., supra* at 464.

the scope of public patents. It does not even appear that the documents were communicated to the client; however, even if routine transmission of information copies to the general counsel's office could be considered communication with the client, the "communication" is still not privileged since it demonstrably reveals no confidences of the client. Finally, there is no indication that in-house patent counsel were seeking anyone's legal advice concerning the contents of these documents. Indeed, Xerox's contention is that patent counsel were giving, not receiving, legal advice. With the attorney-client privilege not available to protect these documents, they are properly discoverable, the work product protection having been accorded in Pre-Trial Ruling No. 17 only to those documents prepared with an eye to litigation.[4]

II.

Xerox also seeks reconsideration of the ruling that there was not a sufficient showing of a shared exposure of Xerox and The Rank Organization to antitrust liability during Xerox-Rank negotiations to justify considering the legal advice given to Xerox officials in the presence of Rank officials as sufficiently confidential to remain privileged. To bolster its claim, Xerox has now taken the somewhat unusual step of submitting *ex parte* for the Court's *in camera* inspection an affidavit from counsel for Rank, purporting to demonstrate the substantiality of the risk of shared exposure.

SCM strenuously objects to the *ex parte* submission.

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[4] In order to avoid possible misunderstandings concerning document identification, it should be noted that the reference to PS 90299 in Pre-Trial Ruling No. 17 n.4 should have been to PS 90295 *et seq.* Further, the documents identified by Xerox as PS 91130 actually begin with the designation PS 91330.

This is not a situation where a court directs allegedly privileged matter to be submitted for *in camera* inspection so that a determination can be made from the contents as to whether the privilege applies. Here Xerox is seeking to establish circumstances to demonstrate that deposition questions need not be answered because they call for allegedly privileged answers. Furthermore, SCM contends there is simply no reason why Xerox should be permitted to relitigate the point with a late submission that could have been produced before. Without doubting that there is considerable force to both objections, I prefer to rest decision on the unpersuasiveness of the affidavit itself.

The affidavit was executed by Rank counsel and obtained by Xerox counsel for use in litigation. It seems reasonable to assume it was worded with some care, and that the representations go as far toward advancing Xerox's position as the oath would permit. While there is a conclusory reference to "the possiblity of shared exposure to antitrust attack or liability," there is simply no sufficient basis for a finding that Rank and Xerox were jointly interested in the legal advice Xerox, counsel gave during the course of arm's length negotiation between the two entities. The affidavit significantly omits any indication that Rank counsel ever suggested to his client the possibility of shared exposure to antitrust liability. Rank counsel refers to his own assessment that there "might" be a challenge and that a challenge "could" involve Rank. This assessment, he says, was communicated to Xerox representatives, together with his view that there was no antitrust violation.

Of course there need not be a clear demonstration of actual liability before a third party and a client can be considered to have a sufficiently common interest in legal advice. And the prospect of liability need not arise solely in the context of trial preparation. But a client's sharing of its attorney's advice with a third party is not in con-

fidence simply because the third party's lawyer thought that there "might" be a challenge, which "could" involve his client. Unless the interests of the parties are demonstrably common, as when potential defendants discuss grand jury questioning, *Continental Oil Co.* v. *United States,* 330 F.2d 347 (9th Cir. 1964), or intended pleas, *Hunydee* v. *United States,* 355 F.2d 183 (9th Cir. 1965), the risk of shared exposure must at least be sufficiently substantial to have prompted the third party's lawyer to counsel his client regarding the prospective hazard.

The conclusory statements contained in the affidavit do not dispel the view that Xerox wanted to change the arrangement, without any serious concern about potential liability of Rank. As the Xerox president acknowledged at his disposition, the meetings and statements discussed "legal considerations affecting Xerox." McColough Deposition, Tr. 2251-52 (May 1, 1975). What Xerox has failed to demonstrate is that when its personnel discussed legal advice they had received with personnel of Rank, the Xerox personnel had any reasonable basis for assuming that the advice was of such common interest to Rank or sufficiently concerned the risk of Rank's shared exposure to liability as would make the advice privileged from subsequent disclosure. Advice discussed with a negotiating adversary in the absence of circumstances supporting such a reasonable expectation is not entitled to protection.

III.

Xerox requests reconsideration of the ruling requiring it to answer Interrogatory No. 62(a), which requests identification (by inventor, number, and date and country of issue) of each patent ever used in plain paper office copiers and duplicators manufactured or marketed by Xerox at any time. Pre-Trial Ruling No. 17 required Xerox to an-

swer that Interrogatory as to all models that bore a legend either listing the patents used or representing that such a list would be furnished upon request. Citing other language in the Ruling that declined, partly because of undue burden, to order Xerox to formulate claims as to patent coverage for machines that did not bear such a legend, Xerox contends the Court must have intended to require an answer to Interrogatory No. 62(a) only to the extent that opinions as to coverage are already in existence. Xerox is correct in suggesting that the Court did not expect that response to Interrogatory No. 62(a), to the extent allowed, would entail much of a burden. The Court assumed that when Xerox represented to the public that a list of patents would be furnished upon request, there must exist some documents that would have enabled Xerox to respond to such an inquiry with reasonable promptness. It is hard to believe that Xerox would have answered a request by saying, "We have documents that list some patents being used, but it will be an enormous burden for our patent department to complete the analysis necessary to list all the patents being used."

Nevertheless Xerox asserts that in fact the available documents do not list all of the patents used on machines that bore the legend promising to furnish such information. No claim is made that such documents formerly existed but have since been destroyed. Nor has Xerox contended that it lacked the ability to furnish to consumers the list of patents it represented it would supply. It may well be that no single document contains a list of patents used in each machine. However, unless the Xerox representation to the public was misleading, Xerox must have some material in its files from which the requested lists can be assembled.

Xerox's own internal documents submitted to the Court and ordered produced under Pre-Trial Ruling No. 17 re-

veal that this is not the first time Xerox has sought to place obstacles in the way of those who simply ask it to honor the public representation it has made. In January, 1967, a request was made for patents used in three machines. Xerox responded with a list of all patents owned by Xerox Corporation. Undaunted by the overkill, the inquiry was renewed, with the request limited to patents used in a single machine. That letter went unanswered. A renewed request in April evoked a reply in May, which stated: "We did send to you a list of certain of our patents, and I am afraid I cannot tell what additional specific information you need." In June the persevering requester reminded Xerox that his inquiry concerned only the patents covering the Model 914, charitably suggesting that the complete list of all patents had been sent inadvertently. That letter was circulated internally for guidance with the notation "We *do* have a list of 914 patents which we *don't* ordinarily send out." (Emphasis in original). Ultimately wiser heads prevailed, and the January request was complied with on August 1. Two years later a request for patents relating to another machine evoked a different tactic. Though an internal document had identified 14 unexpired patents that "probably" related to the machine, the requester was sent six patents with this explanation: "We are enclosing some typical patents which outline our processes . . . ."

The Court does not expect that Xerox patent personnel will now begin an analysis of every patent and make discrete judgments as to whether or not they read on every machine. Much of the required listing is already reflected in the documents already ordered to be produced. As to many patents, it must be readily ascertainable that they do not apply to any machines. If bona fide doubt exists whether some patents are used in a particular machine, the interrogatory response can forego definitive answers

in favor of an indication of probable coverage. Abuse of this limited leeway will encounter sanctions.

Except to the extent modified in the prior paragraph, the motion to reconsider Pre-Trial Ruling No. 17 is denied. Documents ordered to be produced by that Ruling shall be given to SCM by March 15. Interrogatory responses, and *in camera* submissions required by that Ruling shall be filed by March 31.

Dated at New Haven, Connecticut, this 9 day of March, 1976.

JON O. NEWMAN

Pre-Trial Ruling No. 21.

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

CIVIL No. 15,807

SCM CORPORATION

v.

XEROX CORPORATION

Xerox has sought an amendment to Pre-Trial Rulings Nos. 17 and 19 to include the determinations necessary to provide for interlocutory appeal pursuant to 28 U.S.C. § 1292(b) of two rulings contained therein. The first requires Xerox to produce documents containing the opinions of attorneys in its patent department as to the scope of various patents. The second requires Xerox officials to answer deposition questions concerning negotiations between Xerox and the Rank Organisation.

Interlocutory appeals of discovery rulings have been rejected by the Second and other Circuits, even when certification was made under § 1292(b). See *Atlantic City Electrical Co.* v. *General Electric Co.*, 337 F.2d 844 (2d Cir. 1964); *United States* v. *Woodbury*, 263 F.2d 784 (9th Cir. 1959). See also *McSparran* v. *Bethlehem-Cuba Iron Mines Co.*, 26 F.R.D. 619 (E.D. Pa. 1960) (certification denied). Review has been granted where the availability of deposition testimony was thought pertinent to a motion to dismiss, *Garner* v. *Wolfinbarger*, 430 F.2d 1093 (5th Cir. 1970), and where a district judge announced, without precedent, the doctrine that the attorney-client privilege is un-

available to corporations. *Radiant Burners, Inc.* v. *American Gas Association,* 320 F.2d 314 (7th Cir. 1963).

I do not believe the two rulings challenged by Xerox are appropriate for certification for interlocutory review. Neither ruling concerns a matter such that "an immediate appeal from the order may materially advance the ultimate termination of the litigation" as required by § 1292(b). Reversal of either ruling would not eliminate a party, end litigation of a particular claim, nor otherwise spare the litigants any significant aspect of the trial. Despite Xerox's attempt to fragment the first ruling into four issues,[1] it poses the single question of whether an attorney's opinion is privileged when it demonstrably does not reveal confidential communications from the client. While Pre-Trial Rulings Nos. 17 and 19 note some authority for the view that all attorney advice is privileged regardless of whether it reveals client confidences, such views have not been adopted in the Second Circuit, which appears to adhere to the narrower formulation of Judge Wyzanski's in *United States* v. *United Shoe Mach. Corp.,* 89 F. Supp. 357 (D. Mass. 1950), see *Colton* v. *United States,* 306 F.2d 633 (2d Cir. 1962). Differing views outside the circuit have been thought not to satisfy the test of § 1292(b). *Berger* v. *United States,* 170 F. Supp. 795 (S.D.N.Y. 1959).

The second challenged ruling involves no controlling issue of law, but solely a question of whether adequate facts have been presented to satisfy a legal standard not disputed by the parties. Legal advice, if privileged, does not lose protection from disclosure when communicated to those with a sufficient common interest in

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[1] Xerox misapprehends Pre-Trial Ruling No. 19 concerning attorney's advice not communicated to the client. So long as disclosure of that advice would reveal confidential communications from client, it is privileged, even if contained in a memo to the file. See Pre-Trial Ruling No. 19 at 7-8.

the advice. Xerox has failed to demonstrate that this standard was met in the context of the Xerox-Rank negotiations. When the issue was first submitted for decision, no facts other than the existence of the joint venture supported this claim. After Pre-Trial Ruling No. 17, Xerox submitted an affidavit of Rank counsel, which was found in Pre-Trial Ruling No. 19 to be an insufficient basis for concluding that Rank was jointly interested in whatever legal advice Xerox communicated during the negotiations to alter the Xerox-Rank joint venture. Now Xerox alleges that an adequate showing was "implicit" in a paragraph of the attorney's affidavit. Xerox also discounts the significance of McColough's statement that "legal considerations affecting Xerox" were discussed by pointing out that no one asked McColough at his deposition whether Rank was affected. It is not for this Court to divine what is implicit in an attorney's affidavit, nor to assume what a deponent would say if asked a particular question. Xerox has had ample opportunity to submit affidavits of the Rank attorney, McColough, or anyone else to demonstrate explicitly that the joint interest test was met in the context of the Xerox-Rank negotiations. There has simply been a failure of proof.

This litigation is in its third year, and a time-table for trial preparation and trial will shortly be issued. Interlocutory review at this time would cause a substantial delay which I do not believe is warranted. There is, however, one claim that might justify interlocutory review. This concerns the deletion of a concluding paragraph from the Court of Appeals' opinion in *United States* v. *Silverman*, 430 F.2d 106 (2d Cir. 1970), discussed in Pre-Trial Ruling No. 19. While I do not believe § 1292(b) certification is warranted on my reading of *Silverman* and the deletion, it is of course up to the Court of Appeals to say with finality whether that deletion has greater significance

than I have given it. Xerox is certainly entitled to a brief stay to afford it an opportunity to petition the Court of Appeals for a writ of mandamus, though § 1292(b) certification is denied. See *Harper & Row Publishers, Inc.* v. *Decker*, 423 F.2d 487 (7th Cir. 1970).

Accordingly, the motion to amend Pre-Trial Rulings Nos. 17 and 19 to include certification pursuant to 28 U.S.C. § 1292(b) is denied, those Rulings, insofar as they concern the matters challenged by Xerox in its application for amendment, are stayed until March 26 to permit Xerox to seek a petition for writ of mandamus and a further stay from the Court of Appeals, and, in the event mandamus is denied, the deadlines in Pre-Trial Ruling No. 19, concerning the matters here challenged, are extended by the interval from the date of that Ruling until decision by the Court of Appeals on a petition for writ of mandamus.

Dated at New Haven, Connecticut, this 22nd day of March, 1976.

JON O. NEWMAN
United States District Judge

Pre-Trial Ruling No. 22.

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

CIVIL No. 15,807

SCM CORPORATION

v.

XEROX CORPORATION

In order to resolve claims to attorney-client privilege raised during depositions of certain Xerox executives, the Court directed those executives to submit affidavits to the Court for its *in camera* inspection. Pre-Trial Ruling No. 17 at 5, 14, 17. Having examined the affidavits of C. Peter McColough, Sol M. Linowitz, and John H. Dessauer, the Court sustains the claims of McColough and Linowitz, but rules that Dessauer should answer SCM's question whether he ever recommended that Xerox act to prevent another company from becoming a competitor.

Linowitz's affidavit concerns conversations he had with Battelle executives. Linowitz Deposition, Tr. 241 (Oct. 10, 1975). It sufficiently demonstrates the mutual interests of Xerox and Battelle in the topics of discussion so that the conversations may remain privileged as confidential communications concerning legal aspects of matters of joint concern in the affairs of the closely cooperating enterprises.

McColough's affidavit outlines the considerations pertaining to licensing decisions about which SCM endeavored to question him, McColough Deposition, Tr. 1494, 1496-97,

1504-05 (Dec. 19, 1974), 1663 (Dec. 20, 1974), 1783 (Mar. 3, 1975), 1819, 1827 (Mar. 4, 1975), and the reasons behind the decision not to sue Van Dyk for patent infringement, *id.* 241 (June 18, 1974). The considerations turn upon legal advice entitled to the privilege, and his answers may remain protected.

Dessauer's affidavit does not reveal an adequate foundation upon which to sustain the claim of privilege. He was asked whether he ever stated that Xerox should do or not do something in order to prevent other companies from becoming competitors. Dessauer Deposition, Tr. 72-74 (Dec. 5, 1974). His affidavit explains that when he was asked by Xerox's chief executive whether Xerox should grant licensing requests, he replied that it was his opinion that Xerox should not. That expression of opinion was not the relaying of legal advice, but the business recommendation of the Executive Vice-President in charge of research, engineering, and product development. Indeed, by letter dated March 5, 1976, counsel for Xerox, Attorney Sobel, disclaims the privilege as to the substance of Mr. Dessauer's response to the deposition question.

Dated at New Haven, Connecticut, this 27 day of March, 1976.

Jon O. Newman

Judge Newman's Letter of March 29, 1976.

March 29, 1976

Gerald Sobel, Esq.
Kaye, Scholer, Fierman, Hays & Handler
425 Park Avenue
New York, New York 10022

Re: *SCM Corporation* v. *Xerox Corporation—Civil No. 15,807*

Dear Mr. Sobel:

This will acknowledge your letter of March 19 requesting "guidance" as to the position you have taken with SCM concerning compliance with Pre-Trial Ruling No. 20. That Ruling dealt with certain claims and objections presented to the Court by the parties.

The matters you assert in your letter and in the enclosed correspondence were not presented as a ground for objection. Counsel for both sides have shown no reticence about making me aware of their objections to discovery orders sought by the opposing party.

Pre-Trial Ruling No. 20 having been entered after consideration of the parties' claims, it is to be complied with according to its terms (unless stayed or modified by a reviewing court). Whether disclosure pursuant to this order will make any material admissible at trial is a matter to be decided at trial.

Sincerely,

JON O. NEWMAN
United States District Judge

cc: Stephen R. Kaye, Esq.

SCM's Motion to Dismiss Appeal.

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

Docket No. 76-7131

XEROX CORPORATION,
Defendant-Appellant,

against

SCM CORPORATION,
Plaintiff-Appellee.

Plaintiff-Appellee SCM Corporation hereby moves for an order dismissing the appeal sought to be lodged under 28 U.S.C. § 1291 by Defendant-Appellant Xerox Corporation.

Such appeal is sought from portions of Pre-Trial Ruling No. 17, entered by the Hon. Jon O. Newman in the court below (D. Conn.) on February 4, 1976. Those portions of that Ruling directed that six deposition questions be answered and documents responsive to one document request be produced, and rejected the claims of attorney-client and work product privileges asserted by Xerox with respect to those matters.

Xerox also seeks to appeal from portions of Pre-Trial Ruling No. 19 entered in the court below on March 9, 1976, which denied Xerox's motion for rehearing of the matters decided in Pre-Trial Ruling No. 17 concerning the six deposition questions and the document request.

Xerox's Notice of Appeal was served and filed on March 25, 1976.

SCM's Motion to Dismiss the Appeal.

The appeal should be dismissed for each of the following reasons:

1. Pre-Trial Rulings Nos. 17 and 19 are not "final decisions" within the meaning of 28 U.S.C. § 1291. *Shattuck (IBM)* v. *Hoegl (Xerox)*, Docket No. 74-1767, No. 222, p. 4839 (2d Cir. July 16, 1975); *International Business Machines Corp.* v. *United States*, 480 F.2d 293, 297-299 (2d Cir. 1973) *(en banc), cert. denied* 416 U.S. 979 (1974); *American Express Warehousing Ltd.* v. *Transamerica Insurance Co.*, 380 F.2d 277, 280-284 (2d Cir. 1967); *In Re Hughes Tool Co.*, No. 27993 (2d Cir. Jan. 23, 1963) (summarily dismissing appeal from a district court order requiring production over a claim of attorney-client privilege).

2. The portions of Pre-Trial Ruling No. 19 from which Xerox seeks to appeal, are not reviewable on appeal because they constitute orders which merely denied rehearing of portions of Pre-Trial Ruling No. 17. *In Re Brendan Reilly Assoc.*, 374 F.2d 235, 238 (2d Cir. 1967); *Hawkins & Lindsley*, 327 F.2d 356, 357 (2d Cir. 1964); and other authorities cited in those decisions.

3. Even if a right to appeal from Pre-Trial Ruling No. 17 did exist under 28 U.S.C. § 1291, such appeal is untimely and barred under Rule 4(a) of the F.R.A.P. for the following reasons:

(a) The Notice of Appeal of March 25, 1976 was untimely filed, since more than 30 days had elapsed after the entry of Pre-Trial Ruling No. 17 on February 4, 1976. No extension was sought or obtained by Xerox in the court below under the provisions of the last paragraph of Rule 4(a) of the F.R.A.P. concerning "excusable neglect."

(b) Xerox's motion for rehearing of Pre-Trial Ruling No. 17 filed on February 23, 1976 was not and did not purport to be a motion under Rule 50(b), 52(b) or 59 of the F.R.C.P., and therefore, the running of the time for filing a notice of appeal from Pre-Trial Ruling No. 17 was not terminated under Rule 4(a) of the F.R.A.P.

(c) Even if Xerox's motion for rehearing of February 23 were considered as a motion under Rule 50(b), Rule 52(b) or Rule 59 of the F.R.C.P., Xerox cannot avail itself of the relevant provisions of Rule 4(a) of the F.R.A.P. This is because the running of the time for filing a notice of appeal is terminated only "upon a timely motion" under Rule 50(b), 52(b) or 59 of the F.R.C.P.; each of those Rules requires that the motions involved be filed within ten days of the judgment or order involved; Rule 6(b) of the F.R.C.P. does not permit enlargement of that ten-day period; and Xerox's motion of February 23, 1976 for rehearing was not filed within ten days after the entry of Pre-Trial Ruling No. 17 on February 4, 1976, but nineteen days later. 9 Moore, *Federal Practice*, ¶ 204,12[2], pp. 954-955 (1975).

The facts concerning the prior relevant proceedings are set forth in the accompanying affidavit of Stephen Rackow Kaye dated March 26, 1976 and the exhibits referred to in and accompanying that affidavit.

Dated: March 26, 1976.

Respectfully submitted,

Proskauer Rose Goetz & Mendelsohn
300 Park Avenue
New York, New York 10022

SCM's Motion to Dismiss the Appeal.

WIDETT, WIDETT, SLATER & GOLDMAN, P.C.
100 Federal Street
Boston, Massachusetts 02110

JACOBS, JACOBS & GRUDBERG, P.C.
207 Orange Street
New Haven, Connecticut 06503

By STEPHEN RACKOW KAYE

Attorneys for Plaintiff-Appellee
SCM Corporation

To: KAYE, SCHOLER, FIERMAN, HAYS & HANDLER
425 Park Avenue
New York, New York 10022

KENYON & KENYON REILLY CARR & CHAPIN
59 Maiden Lane
New York, New York 10038

JOHN R. MURPHY, Esq.
Xerox Corporation
Stamford, Connecticut 06904

CUMMINGS & LOCKWOOD
1 Atlantic Street
Stamford, Connecticut 06904

Attorneys for Defendant-Appellant
Xerox Corporation

Affidavit of Stephen Rackow Kaye, in Support of Motion to Dismiss Appeal.

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

DOCKET NO. 76-7131

XEROX CORPORATION,

Defendant-Appellant,

—against—

SCM CORPORATION,

Plaintiff-Appellee.

STATE OF NEW YORK }
COUNTY OF NEW YORK } ss.:

STEPHEN RACKOW KAYE, being duly sworn, deposes and says:

1. I am counsel for Plaintiff-Appellee SCM Corporation and am a member of the law firm of Proskauer Rose Goetz & Mendelsohn. This affidavit is submitted in support of SCM's motion for an order dismissing the appeal sought to be lodged under 28 U.S.C. § 1291 by Defendant-Appellant Xerox Corporation. It sets forth the prior relevant proceedings with reference to appropriate exhibits.

2. On May 30, 1975 SCM served and on June 2, 1975 SCM filed a Rule 37 motion to compel answers to 46 deposition questions and to direct production of documents responsive to 6 document requests, as to which Xerox had asserted claims of attorney-client or work product priv-

ilege. With respect to these issues, the parties made comprehensive factual submissions, including affidavits, deposition testimony, exhibits and other documents; and extensive submissions of written legal argumentation. Oral argument was heard on June 30, 1975.

3. SCM's Rule 37 motion was decided by Pre-Trial Ruling No. 17, rendered on February 4, 1976.* On its face, it reflects Judge Newman's thorough consideration of the parties' submissions and the depth of his lengthy deliberation. In this Ruling, a number of Xerox's claims of privilege were overruled; a number were upheld; and decisions as to certain others were deferred pending the submission of further affidavits which Judge Newman requested.

4. On February 13 Xerox applied for, and on February 17 Judge Newman granted a stay until February 23 of compliance by Xerox with Pre-Trial Ruling No. 17, to permit Xerox to file a motion for rehearing. On February 20 it served, and on February 23 it filed, its motion for rehearing concerning three portions of Pre-Trial Ruling No. 17: the portion relating to the six deposition questions involved here; the portion relating to the document request involved here; and the portion relating to an interrogatory, which Xerox does not raise here.

5. Xerox's motion for rehearing was denied in Pre-Trial Ruling No. 19 filed on March 9, 1976.**

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* Pre-Trial Ruling No. 17 is Exhibit A to the March 25, 1976 affidavit of Gerald Sobel, Esq., one of Xerox's counsel, submitted in support of Xerox's motion for a stay. [1a-18a]

** Pre-Trial Ruling No. 19 is Exhibit B to Mr. Sobel's March 25 affidavit. [19a-32a]

Affidavit of Stephen Rackow Kaye, in Support of Motion to Dismiss Appeal.

6. On March 12, Xerox presented to Judge Newman its written motion for certification of an interlocutory appeal under 28 U.S.C. § 1292(b). At the same time it applied for and obtained a further stay until March 22 of its compliance with Pre-Trial Rulings Nos. 17 and 19, pending Judge Newman's ruling on the motion for certification. Judge Newman's order of March 12* also provided that on March 22 he would either deny the request for certification or schedule a hearing on the application; and that if the application were denied, an order would be entered extending the stay until March 26 to afford Xerox an opportunity to pursue any available remedies before this Court.

7. Xerox's motion for certification of an interlocutory appeal under 28 U.S.C. § 1292(b) was denied in Pre-Trial Ruling No. 21 issued on March 22.** That Ruling reaffirmed the further stay until March 26 to afford Xerox an opportunity to petition this Court for a writ of mandamus (p. 4).

8. On March 25, Xerox served and filed its Notice of Appeal, a copy of which is annexed hereto as Exhibit 1.

9. On March 25, Xerox also served: (a) a motion for a further stay of its compliance with Pre-Trial Rulings Nos. 17 and 19 pending this Court's consideration and determination of the appeal and of Xerox's petition for a writ of mandamus; (b) a motion seeking a variety of relief in connection with its appeal and petition, set forth in eight numbered paragraphs; and (c) its mountainous set of supporting papers.

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* The order of March 12, 1976 is Exhibit C to Mr. Sobel's March 25 affidavit.

** Pre-Trial Ruling No. 21 is Exhibit D to Mr. Sobel's March 25 affidavit. [33a-36a]

Affidavit of Stephen Rackow Kaye, in Support of Motion to Dismiss Appeal.

10. Xerox has not sought an order under the provisions of the last paragraph of Rule 4(a) of the F.R.A.P. concerning "excusable neglect"—and none has been granted by the court below—extending Xerox's time to file a notice of appeal as a matter of right beyond the 30 days otherwise required by Rule 4(a) of the F.R.A.P.

11. I respectfully submit that this Court should enter an order dismissing Xerox's appeal on the grounds and authorities set forth with particularity in SCM's motion to dismiss the appeal, and on the facts and exhibits referred to in this affidavit.

Stephen Rackow Kaye

Xerox's Notice of Appeal of March 25, 1976, Exhibit 1, Annexed to Affidavit of Stephen R. Kaye.

FILED
Mar 25 12:03 PM '76
U. S. DISTRICT COURT
NEW HAVEN, CONN.

IN THE UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

Civ. No. 15,807

SCM CORPORATION,

Plaintiff,

against

XEROX CORPORATION,

Defendant.

NOTICE OF APPEAL

Notice is hereby given that Xerox Corporation ("Xerox"), the defendant in the above-entitled action, hereby appeals to the United States Court of Appeals for the Second Circuit from Pre-Trial Ruling No. 17, entered February 4, 1976, and Pre-Trial Ruling No. 19, entered on March 9, 1976 which reaffirmed the prior Order upon Xerox' motion for rehearing, reconsideration and/or clarification, insofar as such Pre-Trial Rulings reject Xerox' claims of privilege and require that (1) Xerox produce to the plaintiff documents concerning patent coverage of

Xerox's Notice of Appeal of March 25, 1976, Exhibit 1, Annexed to Affidavit of Stephen R. Kaye.

Xerox' machines (Pre-Trial Ruling No. 17, pp. 7-11; Pre-Trial Ruling No. 19, pp. 1-10) and (2) certain witnesses answer deposition questions pertaining to discussions of legal matters pertaining to the relationship between Xerox and Rank Organization (Pre-Trial Ruling No. 17, pp. 1-4, 15-16; Pre-Trial Ruling No. 19, pp. 10-12) and, in so doing, enunciate principles intended by the District Court as "guidance . . . to resolve any remaining disputes as to the availability of the attorney-client privilege" (Pre-Trial Ruling No. 17, p. 20).

Dated: March 25, 1976.

Respectfully submitted,

KAYE, SCHOLER, FIERMAN, HAYS & HANDLER
425 Park Avenue
New York, New York 10022

KENYON & KENYON REILLY CARR & CHAPIN
59 Maiden Lane
New York, New York 10038

CUMMINGS & LOCKWOOD
One Atlantic Street
Stamford, Connecticut 06904

JOHN J. MURPHY, Esq.
Xerox Corporation
Stamford, Connecticut 06904
By GERALD SOBEL
Attorneys for Xerox Corporation

Xerox's Letter Application of February 13, 1976, Endorsed.

KAYE, SCHOLER, FIERMAN, HAYS & HANDLER
425 Park Avenue New York, N. Y. 10022

February 13, 1976

Honorable Jon O. Newman
United States District Judge
United States District Court
141 Church Street
New Haven, Connecticut 06505

Re: SCM v. Xerox Corp.
Civ. No. 15,807

Dear Judge Newman:

I am writing this letter with respect to Pre-Trial Ruling No. 17. Two aspects of this Ruling raise serious questions in our minds. We are studying the ruling carefully and doing further research, having in mind the possibility that we may wish to move for rehearing or, perhaps, seek an interlocutory appeal. Our analysis in this regard is not complete.

Counsel for SCM, Mr. Kaye, asked on February 11 for production of the documents which Pre-Trial Ruling No. 17 ruled were not privileged (the Cole memorandum concerning IBM and certain others relating to patent coverage of Xerox' machines) and certain other documents which were not involved in Pre-Trial Ruling No. 17 (relating to Rank Organization—Xerox discussions). In response, we today furnished to SCM the pertinent portion of the Cole memorandum and advised Mr. Kaye that we were considering a motion for rehearing with respect to the documents relating to patent coverage of Xerox' machines and the Rank Organization—Xerox discussions.

Xerox's Letter Application of February 13, 1976, Endorsed.

Counsel for SCM had urged that it wanted the documents in question in light of its deposition of a former IBM employee next week and its deposition of Mr. Kobyashi on February 24. Since we furnished the Cole document to Mr. Kaye, his needs concerning the IBM witness are taken care of. With respect to the documents relating to the Rank Organization—Xerox discussions, while they were not passed on in the Ruling, we advised Mr. Kaye that we would make the documents available to counsel for SCM in Japan prior to the examination of Mr. Kobyashi in the event we did not file a motion for rehearing on this subject. These documents are not directly relevant to Fuji-Xerox affairs and SCM's plans for this deposition were made regardless of the outcome of its motion pertaining to privilege.

We, therefore, respectfully request that the Court order a stay of compliance with Pre-Trial Ruling No. 17 until February 23, 1976.

Respectfully submitted,

GERALD SOBEL

GS:jb
Encs.

cc: Stephen Kaye, Esq.
cc: John F. Spindler, Esq.

P. S. Copies of the pertinent correspondence is enclosed.

2/17/76. Xerox motion to stay pre-trial ruling to Feb. 23, 1976, is granted.

J. O. NEWMAN U.S.D.J.

Letter of March 25, 1976 From Stephen R. Kaye, Concerning the Affidavit of Rank Counsel.

PROSKAUER ROSE GOETZ & MENDELSOHN

300 Park Avenue
New York, N. Y. 10022

March 25, 1976

Hon. A. Daniel Fusaro
Clerk
United States Court of Appeals
for the Second Circuit
U.S. Court House
Foley Square
New York, New York 10007

Xerox Corporation, Deft.-Appellant,
v. SCM Corporation, Plt.-Appellee;
Xerox Corporation, Petitioner,
v. Hon. Jon O. Newman et ano., Resp.

Dear Mr. Fusaro:

As counsel for SCM Corporation I am writing to express its objection to the filing by Xerox in this Court of the "Affidavit of Rank Counsel", referred to in Category VI B of the Table of Contents of the "Appendix to Xerox' Brief on Appeal and Petition for Writ of Mandamus".

A copy of that "Affidavit of Rank counsel" was not served today by Xerox on SCM, and has never previously been served on SCM. SCM has not seen and does not have knowledge of its contents.

Letter of March 25, 1976 From Stephen R. Kaye, Concerning the Affidavit of Rank Counsel.

Presumably, Xerox' Certificate of Service does not identify a copy of this affidavit as having been served on SCM. In fact, Xerox recognizes that the affidavit should not be filed with this Court in the absence of its permission, since in Paragraph (6) of its motion of this date for various types of relief it has applied for an order "permitting the filing *in camera* of . . . an affidavit reflecting communications as to which privilege was claimed", which undoubtedly refers to this affidavit of Rank counsel.

Xerox' attempt this morning to file this affidavit and Xerox' motion for an order permitting it to file this affidavit with this Court *in camera* should be rejected because of the absence of any provision of law permitting this particular *ex parte* submission for this Court's *in camera* inspection.

The prior events in the court below leading to and involving this affidavit are set forth below.

1. On February 4, 1976 Pre-Trial Ruling No. 17 was issued and included a decision overruling Xerox' claims of attorney-client privilege with respect to four deposition questions involving oral communications by officials of Xerox Corporation to officials of the Rank Organisation, Ltd., made during the course of negotiations between them which led to an agreement between them. The decision compelling answers to these deposition questions rested on the court's below rejection of Xerox' claims that the communications during such negotiations were subject to a claim by Xerox of attorney-client privilege. In reaching that decision, Judge Newman considered the very extensive factual and legal submissions previously made by the parties concerning these matters.

2. On February 23 Xerox filed a motion for rehearing of Pre-Trial Ruling No. 17. In support of

that motion, insofar as it related to the deposition questions, it made an *ex parte* filing of the "Affidavit of Rank Counsel" for the court's below *in camera* inspection. The court below had not directed Xerox to do this and neither before nor after the filing of the affidavit did Xerox request permission to do so; and the court below never granted any such permission.

3. On March 1, 1976 SCM filed its papers in opposition to Xerox' motion for rehearing. Among other things, it contended that Xerox' extraordinary action in making the *ex parte* filing of the affidavit, without disclosure of its contents to SCM and without the Court's permission or direction, was in disregard of DR 7-110(B) and Opinion No. 887* of the Committee on Professional and Judicial Ethics of the Association of the Bar of the City of New York (August 27, 1975)—and we should add, Rule 5(a) of the FRCP. All of these embody the fundamental principle in American adversary proceedings that, except as otherwise authorized by law, submissions to the court by one side should be disclosed to the other as a matter of essential fairness

4. On March 9, 1976, Pre-Trial Ruling No. 19 was issued. With respect to this matter, Judge Newman stated (pp. 10-11), that "Without doubting that there is considerable force" to SCM's objection, he preferred "to rest decision on the unpersuasiveness of the affidavit itself".

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* Published in the October 1975 issue of the Record of the Association of the Bar of the City of New York, pp. 507-510.

Letter of March 25, 1976 From Stephen R. Kaye, Concerning the Affidavit of Rank Counsel.

5. In view of the imminence of an attempt by Xerox to seek appellate review, I wrote to Xerox' counsel on March 11, March 19 and March 24 requesting that a copy of that affidavit be furnished to SCM. Those first two requests were refused, and the third request of March 24 has not been answered as of this time. We have founded these requests, not only on the authorities described above, but also because of the position of great unfairness in which SCM has been placed by Xerox' refusal to disclose to SCM the contents of this affidavit. At the same time Xerox is presenting to this Court arguments based on that affidavit, SCM cannot tell what facts, if any, have been included in the affidavit; and more importantly, what facts, if any, are not included or which have been selectively omitted. Thus SCM has been precluded by Xerox' *ex parte* action in attempting to present any facts or argumentation to support the correctness of Judge Newman's ruling concerning the unpersuasiveness of the affidavit.

* * *

By reason of the foregoing, we request that this Court reject Xerox' attempt to file with this Court the affidavit of Rank's counsel and to deny its motion for permission to file it without it having been served on SCM.

Respectfully submitted,

STEPHEN RACKOW KAYE

SRK:cg
Encl. —4 copies of
this letter
BY HAND
cc: Milton Handler, Esq.
BY HAND